

SOLITARIO EXPLORATION & ROYALTY CORP.

Form 10-K/A

September 10, 2012

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A**

Amendment No. 1

(Mark One)

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2011

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission file number 001-32978

SOLITARIO EXPLORATION & ROYALTY CORP.

(Exact name of registrant as specified in charter)

Colorado

(State or other jurisdiction of incorporation or organization)

4251 Kipling St. Suite 390, Wheat Ridge, CO

(Address of principal executive offices)

Registrant's telephone number, including area code

84-1285791

(I.R.S. Employer Identification No.)

80033

(Zip Code)

(303) 534-1030

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, \$0.01 par value	NYSE MKT

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.:

Non-accelerated Filer

Large accelerated filer Accelerated filer (Do not check if a smaller reporting company) Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

YES NO

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter, based upon the closing sale price of the registrant's common stock on June 30, 2011 as reported on NYSE MKT was approximately \$91,841,000.

There were 34,229,958 shares of common stock, \$0.01 par value, outstanding on March 8, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the Registrant's 2012 Annual Meeting of Shareholders, filed with the Securities and Exchange Commission on April 27, 2012, are incorporated by reference into Part III, as specifically set forth in Part III.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (this "Amendment") to the Annual Report on Form 10-K of Solitario Exploration & Royalty Corp. (the "Company") for the fiscal year ended December 31, 2011, initially filed with the Securities and Exchange Commission (the "SEC") on March 12, 2012 (the "Original Filing"), is being filed to correct certain administrative errors in the Original Filing. The Original Filing inadvertently (i) failed to include a conformed signature on the report of independent registered accounting firm from Ehrhardt Keefe Steiner and Hottman, PC ("EKSH") included in Item 8; (ii) failed to include a conformed signature on the consent from EKSH in Exhibit 23.1 and (iii) included an incorrect form of Exhibit 23.2 which did not include the proper information and form of consent.

This Amendment No. 1 is being filed solely to file the report of independent registered accounting firm with a conformed signature, and to file corrected Exhibits 23.1 and 23.2 that were intended to be filed with the Original Filing.

In addition, pursuant to the rules of the SEC, Item 8, Financial Statements and Supplementary Data is being refilled in its entirety in this Amendment, however the only change in Item 8 from the Original Filing has been to add the conformed signature to the report of independent registered accounting firm. Further, the exhibit list included in Item 15 of Part IV of the Original Filing has been amended to contain currently-dated certifications from the Company's Chief Executive Officer and Chief Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002. The certifications of the Company's Chief Executive Officer and Chief Financial Officer are attached as exhibits to this Amendment.

Except for the foregoing amended information, this Amendment does not amend or update any other information contained in the Original Filing. Therefore, this Amendment should be read together with other documents that the Company has filed with the SEC subsequent to the filing of the Original Filing. Information in such reports and documents updates and supersedes certain information contained in the Original Filing.

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Solitario Exploration & Royalty Corp.

Wheat Ridge, Colorado

We have audited the accompanying consolidated balance sheets of Solitario Exploration & Royalty Corp. (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in shareholders' equity and comprehensive loss and cash flows for each of the years in the three-year period ended December 31, 2011. We also have audited the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting included in Item 9A. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have

a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Solitario Exploration & Royalty Corp. as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, Solitario Exploration & Royalty Corp. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for share-based payment awards as of January 1, 2011 due to the adoption of new FASB guidance.

/s/ Ehrhardt Keefe Steiner & Hottman PC

Ehrhardt Keefe Steiner & Hottman PC

March 12, 2012

Denver, Colorado

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SOLITARIO EXPLORATION & ROYALTY CORP.

CONSOLIDATED BALANCE SHEETS

(in thousands of U.S. dollars, except share and per share amounts)	December 31, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$432	\$478
Investments in marketable equity securities, at fair value	4,361	5,214
Prepaid expenses and other	488	421
Total current assets	5,281	6,113
Mineral properties	8,901	6,153
Investments in marketable equity securities, at fair value	6,000	14,557
Equity method investment	1,653	2,276
Other assets	219	509
Total assets	\$22,054	\$29,608
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$482	\$630
Short-term margin loan	2,000	2,823
Current portion long-term debt	727	481
Deferred income taxes	1,627	1,945
Other	100	100
Total current liabilities	4,936	5,979
Long-term debt, net of discount	2,075	2,604
Deferred income taxes	1,170	4,474
Stock option liability	—	2,775
Commitments and contingencies (Notes 2 and 8)		
Shareholders' Equity:		
Solitario shareholders' equity		
Preferred stock, \$0.01 par value, authorized 10,000,000 shares (none issued and outstanding at December 31, 2011 and 2010)	—	—
Common stock, \$0.01 par value, authorized, 100,000,000 shares (34,204,958 and 29,750,242, respectively, shares issued and outstanding at December 31, 2011 and 2010)	342	297
Additional paid-in capital	49,015	36,799
Accumulated deficit	(39,381)	(36,996)

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Accumulated other comprehensive income	5,877	11,786
Total Solitario shareholders' equity	15,853	11,886
Noncontrolling interest	(1,640)	1,890
Contra-noncontrolling interest	(340)	—
Total shareholders' equity	13,873	13,776
Total liabilities and shareholders' equity	\$22,054	\$29,608

See Notes to Consolidated Financial Statements.

SOLITARIO EXPLORATION & ROYALTY CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

(in thousands of U.S. Dollars, except per share amounts)	For the year ended December 31,		
	2011	2010	2009
Property and joint venture revenue			
Joint venture property payments	\$242	\$200	\$200
Costs, expenses and other:			
Exploration expense	5,946	4,033	3,579
Depreciation and amortization	46	67	91
General and administrative	2,857	4,280	2,079
Loss (gain) on derivative instruments	137	(152)	(694)
Property abandonment and impairment	10	55	51
(Gain) loss on sale of assets	—	(22)	18
Interest and dividend income (net)	163	(63)	(106)
Total costs, expenses and other	9,159	8,198	5,018
Other Income			
Gain on sale of marketable equity securities	1,937	995	1,409
Equity in net loss of equity method investment	(623)	(220)	—
Gain on deconsolidation of PBM subsidiary	—	724	—
Break fee on attempted acquisition	—	—	2,200
Total other income	1,314	1,499	3,609
Loss before income tax	(7,603)	(6,499)	(1,209)
Income tax benefit (expense)	635	1,159	(996)
Net loss	(6,968)	(5,340)	(2,205)
Less net loss attributable to noncontrolling interest	3,591	1,274	419
Net loss attributable to Solitario shareholders	\$(3,377)	\$(4,066)	\$(1,786)
Loss per common share attributable to Solitario shareholders:			
Basic and diluted	\$(0.10)	\$(0.14)	\$(0.06)
Weighted average shares outstanding:			
Basic and diluted	32,807	29,750	29,750

See Notes to Consolidated Financial Statements.

SOLITARIO EXPLORATION & ROYALTY CORP.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE LOSS

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

(in thousands, except share amounts)	Solitario Shareholders'				Accumulated Other Shareholders' Income	Total Solitario Controlling Equity	Non- Controlling Interest	C N
	Common Stock Shares	Paid-in Amount	Additional Accumulated Capital	Comprehensive Deficit				
Balance at December 31, 2008	29,750,242	\$297	\$35,611	\$(31,144	) \$12,454	\$17,218	\$833	\$
Comprehensive income:								
Net loss	—	—	—	(1,786	) —	(1,786	) (419)
Net unrealized (loss) on marketable equity securities (net of tax of \$435)	—	—	—	—	(732	) (732) —	
Comprehensive loss	—	—	—	—	—	(2,518	) (419)
Balance at December 31, 2009	29,750,242	297	35,611	(32,930	) 11,722	14,700	414	
Noncontrolling interest equity contribution	—	—	1,188	—	—	1,188	1,594	
Deconsolidation of PBM subsidiary	—	—	—	—	—	—	(1,844)
Noncontrolling interest equity contribution	—	—	—	—	—	—	3,000	
Comprehensive income:								

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Net loss	—	—	—	(4,066)	—	(4,066)	(1,274)
Net unrealized gain on marketable equity securities (net of tax of \$163)	—	—	—	—		64	64		—	
Comprehensive loss	—	—	—	—		—	(4,002	)	(1,274)
Balance at December 31, 2010	29,750,242	297	36,799	(36,996	)	11,786	11,886		1,890	
Cumulative effect of change in accounting principle, net of deferred tax of \$543	—	—	1,240	992		—	2,232		—	
Issuance of shares for cash in public offering, net of issuance costs of \$838	3,910,000	39	8,898	—		—	8,937		—	
Issuance of shares for royalty buy-down	344,116	3	997	—		—	1,000		—	
Issuance of shares and \$200 of cash to noncontrolling shareholder for future earn-in	50,000	1	139	—		—	140		—	
Noncontrolling interest contribution	—	—	—	—		—	—		584	
Loan to noncontrolling interest	—	—	—	—		—	—		(504)
Stock option expense	—	—	697	—		—	697		—	
Issuance of shares on exercise of stock options	150,600	2	245	—		—	247		—	
	—	—	—	—		—	—		(19)

Accrued interest on advance to noncontrolling interest										
Comprehensive income:										
Net loss	—	—	—	(3,377	)	—	(3,377	)	(3,591)
Net unrealized (loss) on marketable equity securities (net of tax of \$3,516)	—	—	—	—		(5,909	)	(5,909)	—
Comprehensive loss	—	—	—	—		—	(9,286	)	(3,591)
Balance at December 31, 2011	34,204,958	\$342	\$49,015	\$(39,381	)	\$5,877	\$15,853		<u>\$(1,640)</u>	\$

See Notes to Consolidated Financial Statements.

SOLITARIO EXPLORATION & ROYALTY CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

(in thousands of U.S. Dollars)	For the year ended December 31,		
	2011	2010	2009
Operating activities:			
Net loss	\$(6,968)	\$(5,340)	\$(2,205)
Adjustments to reconcile net loss to net cash used in operating activities:			
Loss (gain) on derivative instruments	137	(152)	(694)
Depreciation and amortization	46	67	91
Loss on equity method investment	623	220	—
Property abandonment and impairment	10	55	51
Employee stock option expense (benefit)	697	2,513	(269)
Deferred income taxes	(635)	(867)	611
Amortization of interest on debt discount	217	19	—
Gain on asset and equity security sales	(1,937)	(1,017)	(1,391)
Gain on deconsolidation of PBM subsidiary	—	(724)	—
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	(2)	49	96
Accounts payable and other current liabilities	(119)	414	112
Current income taxes payable	—	(677)	385
Net cash used in operating activities	(7,931)	(5,440)	(3,213)
Investing activities:			
Additions to mineral properties	(1,765)	(11)	(5)
Additions to other assets	(119)	(60)	(15)
Purchase of marketable equity securities	—	(358)	—
Sale (purchase) of derivative instrument, net	42	(135)	99
Proceeds from sale of marketable equity securities	2,035	1,301	1,852
Decrease in cash from deconsolidation of PBM subsidiary	—	(1,083)	—
Proceeds from sale of other assets	—	22	—
Net cash provided by investing activities	193	(324)	1,931
Financing activities:			
Short-term margin loan (repayment) borrowing, net	(872)	2,800	—
Repayment of long-term debt	(500)	—	—
Proceeds from common stock offering, net	8,937	—	—
Proceeds from exercise of options	247	—	—
Payment to noncontrolling interest	(200)	—	—
Noncontrolling interest contribution	80	1,496	1,286
Net cash provided by financing activities	7,692	4,296	1,286

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Net increase (decrease) in cash and cash equivalents	(46)	(1,468)	4
Cash and cash equivalents, beginning of year	478	1,946	1,942
Cash and cash equivalents, end of year	\$432	\$478	\$1,946
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$71	\$31	\$23
Cash paid for income taxes	\$—	\$319	\$—
Supplemental disclosure of non-cash flow investing and financing activities:			
Acquisition of mineral properties for stock	\$1,000	\$—	\$—
Loan to noncontrolling interest	\$504	\$—	\$—
Issuance of stock to noncontrolling interest	\$140	\$—	\$—
Reclassification of stock option liability to additional paid-in capital, \$1,240 and to retained earnings, \$992, net of deferred taxes of \$543 upon change in accounting principle	\$2,775	\$—	\$—
Assumption of Mt. Hamilton long-term debt on acquisition of Mt. Hamilton mineral property	\$—	\$3,066	\$—
Noncontrolling shareholder contribution of Mt. Hamilton property	\$—	\$3,000	\$—
Reclassification of deferred noncontrolling shareholder payments to additional paid-in capital	\$—	\$1,188	\$—
Reclassification of deferred noncontrolling shareholder payments to noncontrolling interest	\$—	\$1,594	\$—

See Notes to Consolidated Financial Statements.

1. Business and Summary of Significant Accounting Policies:

Business and company formation

Solitario Exploration & Royalty Corp. (“Solitario”) is an exploration stage company at December 31, 2011 with a focus on the acquisition of precious and base metal properties with exploration potential and the development or purchase of royalty interests. Solitario acquires and holds a portfolio of exploration properties for future sale or joint venture or to create a royalty prior to the establishment of proven and probable reserves. In August 2010 Solitario signed a Letter of Intent related to the Mt. Hamilton project and in December 2010 Solitario signed a Limited Liability Company Operating Agreement to form Mt. Hamilton LLC (“MH-LLC”) whereby Solitario could earn-in up to an 80% interest in MH-LLC and have the right to develop the Mt. Hamilton project located in Nevada, discussed below under “Recent developments.” Solitario intends to develop the Mt. Hamilton project. However, Solitario has never developed a mineral property. Solitario is exploring on other mineral properties that may be developed in the future by Solitario or through a joint venture. Solitario may also evaluate mineral properties to potentially buy a royalty.

Solitario has been actively involved in mineral exploration since 1993. Solitario's last significant revenues were recorded in 2000 upon the sale of the Yanacocha property for \$6,000,000. Future revenues from joint venture payments or the sale of properties, if any, would also occur on an infrequent basis. At December 31, 2011, Solitario had 12 mineral exploration properties in the United States, Peru, Bolivia, Mexico and Brazil and its Yanacocha and La Tola royalty properties in Peru. Solitario is conducting exploration activities in all of those countries.

Solitario was incorporated in the state of Colorado on November 15, 1984 as a wholly-owned subsidiary of Crown Resources Corporation (“Crown”). In July 1994, Solitario became a publicly traded company on the Toronto Stock Exchange (the “TSX”) through its Initial Public Offering.

Recent developments

Mt. Hamilton feasibility study

Solitario announced on February 22, 2012 the completion of a feasibility study on its Mt. Hamilton project (the “Feasibility Study”), prepared by SRK Consulting (US), Inc. of Lakewood, Colorado (“SRK”). As a result of the completion of the Feasibility Study, Solitario earned an 80% interest in MH-LLC, became a development-stage company (but not a company in the “Development Stage”) and reported mineral reserves at its Mt. Hamilton project. See Note 15, “Subsequent event, Mt. Hamilton feasibility study,” below.

Equity financing

On April 13, 2011, Solitario sold 3,400,000 shares of its common stock in an underwritten public offering (the "Offering") at a price to the public of \$2.50 per share and on May 9, 2011, Solitario sold an additional 510,000 shares at \$2.50 per share, upon the exercise of the underwriter's option to cover over-allotments. The net proceeds were \$8,937,000 after the underwriter's commission of six percent totaling \$587,000 and offering costs of \$251,000. The Offering was made pursuant to a shelf registration statement on Form S-3 previously filed with the SEC on March 18, 2011, which was declared effective on March 29, 2011. A prospectus supplement relating to the Offering has been filed with the SEC and is available on the SEC's website located at www.sec.gov.

Stock option liability – Change in accounting principle

On January 1, 2011, Solitario changed its accounting for stock options to equity accounting from liability accounting upon the adoption of Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2010-13, "Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades." The newly adopted accounting principle is preferable because it improves consistency in financial reporting by eliminating diversity in accounting practice. See Note 9, "Employee stock compensation plans."

Royalty buy-down

On May 17, 2011, we entered into an agreement, along with our subsidiary MH-LLC, with an underlying royalty holder on our Mt. Hamilton property whereby we delivered, for the benefit of MH-LLC, 344,116 shares of our common stock, with a fair market value of \$1,000,000 based upon a 20-day weighted average quoted stock price, and \$1,520,000

of cash, to reduce the future net smelter royalty (the "Royalty Buy-down") from a maximum royalty of 8% to a maximum royalty of 6%. MH-LLC retains its existing right to further reduce the net smelter royalty at Mt. Hamilton by an additional 5% to an ultimate royalty of 1%. As part of the Royalty Buy-down transaction, we agreed to loan \$504,000 to DHI Minerals (US) Ltd. ("DHI-US"), the noncontrolling member of MH-LLC, for its mutually agreed 20% of the total purchase price contributed by us to MH-LLC to fund the Royalty Buy-down. This loan is unsecured, bearing interest at 6% per annum, and the loan and any accrued interest thereon will only be repaid from 80% of DHI-US share of distributions from MH-LLC, if any. We have recorded the loan of \$504,000 as an offset to DHI-US's noncontrolling interest in MH-LLC, as the loan represents a claim on DHI-US's share of the future distributions from MH-LLC. During 2011 we accrued \$19,000 of interest on the \$504,000 loan recorded as an offset to DHI-US's noncontrolling interest in the equity section of our consolidated balance sheet.

Investment in Kinross

Solitario has a significant investment in Kinross at December 31, 2011, which consists of 850,000 shares of Kinross common stock. During 2011, 2010 and 2009, Solitario sold 130,000, 70,000 and 100,000 shares, respectively, of Kinross common stock for proceeds of \$2,035,000, \$1,301,000 and \$1,852,000 respectively. As of March 8, 2012, Solitario owns 820,000 shares of Kinross common stock. Solitario's investment in Kinross common stock represents a significant concentration of assets, with the inherent risk that entails. Any significant fluctuation in the market value of Kinross common shares could have a material impact on our liquidity and capital resources. In October 2007 Solitario entered into a collar that limited the proceeds on 900,000 shares of Solitario's investment in Kinross common shares. On April 12, 2011, the final tranche of the Kinross Collar due on that date expired, and 100,000 shares under the Kinross Collar were released. During 2011, 2010 and 2009, Solitario has from time to time sold covered calls against its holdings of Kinross. As of December 31, 2011, Solitario has no covered calls outstanding against its holdings of Kinross shares. The Kinross Collar and Kinross Calls are discussed below under "Derivative instruments." As of December 31, 2011, Solitario has borrowed \$2,000,000 in a margin loan against its holdings of Kinross shares. The short-term margin loan is discussed below under Note 3, "Short-term debt."

Financial reporting

The consolidated financial statements include the accounts of Solitario and its wholly-owned subsidiaries, controlled non-wholly-owned subsidiaries and its equity investment in Pedra Branca Mineracao, Ltd ("PBM"), which owns the Pedra Branca project in Brazil. All significant intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), and are expressed in US dollars.

Revenue recognition

Solitario records delay rental payments as revenue in the period received. Solitario recorded \$242,000 in joint venture and property payments for the year ended December 31, 2011 and recorded \$200,000 in joint venture and property payments during the years ended December 31, 2010 and 2009. Any payments received for the sale of property interests are recorded as a reduction of the related property's capitalized cost. Proceeds which exceed the capitalized cost of the property are recognized as revenue.

Deferred noncontrolling shareholder payments

Solitario records any proceeds from parties earning an interest in subsidiaries as deferred noncontrolling shareholder payments until the party earns an interest in the subsidiary. Upon earning an initial or subsequent interest in the subsidiary, Solitario records noncontrolling interest equal to the earned percentage interest in the net book value of the subsidiary and any difference between the proceeds and the noncontrolling interest as additional paid-in capital. In the event the parties do not earn either an initial interest or a subsequent interest in the subsidiary, Solitario records any payments remaining in deferred noncontrolling shareholder payments to the statement of operations.

On July 21, 2010, Anglo Platinum Limited (“Anglo”) made a payment of \$746,000 to PBM required to fund the 2010 work program at the Pedra Branca project, which is held by PBM. Upon making this payment, Anglo earned an additional 21% interest in PBM and now holds a 51% interest in PBM. As a result of Anglo earning a 51% interest in PBM by meeting the requirements of the Shareholders Agreement, Solitario reclassified the balance of \$2,782,000 in

deferred noncontrolling shareholder payments as \$1,594,000 to Anglo's interest in PBM and \$1,188,000 to additional paid-in capital, for Solitario's share of the deferred noncontrolling shareholder payments. Accordingly, as it no longer controls PBM, Solitario deconsolidated PBM, in accordance with the FASB Accounting Standards Codification ("ASC") No. 810, "Consolidations," during year ended December 31, 2010; see Note 11 "Deconsolidation of PBM." This reduced the balance in the deferred noncontrolling shareholder account to zero as of July 21, 2010. During the year ended December 31, 2010, Solitario received deferred noncontrolling shareholder payments of \$1,496,000. During the year ended December 31, 2011, Solitario received no deferred noncontrolling shareholder payments from joint venture partners to earn an interest in any of Solitario's subsidiaries.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Some of the more significant estimates included in the preparation of Solitario's financial statements pertain to: (i) the recoverability of mineral properties and their future exploration potential; (ii) the estimate of the fair value of Solitario's stock option grants to employees; (iii) the ability of Solitario to realize its deferred tax assets; (iv) the current portion of Solitario's investment in Kinross stock and in Ely shares included in marketable equity securities; (v) the fair value of Solitario's investment in the Ely Warrants; (vi) the discounted value of the long-term debt recorded upon the formation of MH-LLC; (vii) the fair value of PBM upon deconsolidation; and (viii) the fair value of the Mt. Hamilton property recorded upon the formation of MH-LLC.

In performing its activities, Solitario has incurred certain costs for mineral properties. The recovery of these costs is ultimately dependent upon the sale of mineral property interests or the development of economically recoverable ore reserves and the ability of Solitario to obtain the necessary permits and financing to successfully place the properties into production, and upon future profitable operations, none of which is assured.

Cash equivalents

Cash equivalents include investments in highly liquid money-market securities with original maturities of three months or less when purchased. As of December 31, 2011 and 2010, Solitario had concentrations of cash and cash equivalents in excess of federally insured amounts and cash in foreign banks, which are not covered under the federal deposit insurance rules for the United States.

Mineral properties

Solitario expenses all exploration costs incurred on its mineral properties prior to the establishment of proven and probable reserves. Initial acquisition costs of its mineral properties are capitalized. Solitario regularly performs evaluations of its investment in mineral properties to assess the recoverability and/or the residual value of its investments in these assets. All long-lived assets are reviewed for impairment whenever events or circumstances change which indicate the carrying amount of an asset may not be recoverable, utilizing established guidelines based upon undiscounted future net cash flows from the asset or upon the determination that certain exploration properties do not have sufficient potential for economic mineralization. During the year ended December 31, 2011, 2010 and 2009, Solitario recorded an impairment of \$10,000, \$55,000 and \$51,000, respectively, on its mineral properties.

Solitario's net capitalized mineral properties of \$8,901,000 and \$6,153,000 at December 31, 2011 and 2010, respectively, related to land, leasehold and acquisition costs. As of December 31, 2011, Solitario has not identified any proven and probable reserves related to its mineral properties. However on February 22, 2012, Solitario announced the completion of the Feasibility Study with regard to its Mt. Hamilton project. See Note 15, "Subsequent event, Mt. Hamilton feasibility study."

Derivative instruments

Solitario accounts for its derivative instruments in accordance with ASC 815 "Accounting for Derivative Instruments and Hedging Activities" ("ASC 815"). On October 12, 2007, Solitario entered into a Zero-Premium Equity Collar (the "Kinross Collar") pursuant to a Master Agreement for Equity Collars and a Pledge and Security Agreement

with UBS AG, London, England, an Affiliate of UBS Securities LLC (collectively "UBS") whereby Solitario pledged 900,000 shares of Kinross common stock to be sold (or delivered back to us with any differences settled in cash) upon exercise of the put or call options under the Kinross Collar. On April 12, 2011, the final tranche of the Kinross Collar due on that date expired unexercised, and 100,000 shares under the Kinross Collar were released. As of December 31, 2011, none of Solitario's Kinross shares are subject to the Kinross Collar.

Beginning in December 2008, Solitario sold covered calls covering its shares of Kinross common stock. Solitario sold three covered calls covering 130,000 shares of Kinross common stock during 2009, of which 50,000 of these call options expired unexercised in April 2009, 40,000 were repurchased in July 2009 and 40,000 were repurchased in November 2009. In November 2009, Solitario sold an option for 40,000 shares which expired in May 2010. In September 2011 Solitario sold options covering 65,000 shares for proceeds of \$57,000, which were repurchased in October 2011 for \$15,000 and Solitario recorded a gain of \$42,000 in (gain) loss on derivative earnings.

Solitario has not designated its Kinross Collar or its covered calls as hedging instruments as described in ASC 815 and any changes in the fair market value of the Kinross Collar or the Kinross covered calls are recognized in the statement of operations in the period of the change. See Note 6, "Derivative instruments" below.

On August 26, 2010, Solitario signed a letter of intent with Ely Gold and Minerals, Inc. ("Ely") to make certain equity investments into Ely and to joint venture Ely's Mt. Hamilton project, which was wholly owned by DHI-US. Solitario made private placement investments into Ely of \$250,000 each on August 26, 2010 and October 19, 2010. Solitario received a total of 3,333,333 shares of Ely common stock in the private placements and warrants for the purchase of 1,666,667 shares of Ely common stock at Cdn\$0.25 per share, which expire on August 26, 2012 and warrants for the purchase of 1,666,667 shares of Ely common stock at Cdn\$0.25 per share, which expire on October 19, 2012. On August 30, 2010, Solitario allocated its investment between the Ely common stock received of \$178,000 and the Ely Warrants received of \$65,000 based upon the fair values of each. During 2010 Solitario recorded a gain on derivative instruments of \$117,000 on the warrants received on August 26, 2010. In accordance with ASC 815, at December 31, 2010 Solitario did not classify the warrants acquired on October 19, 2010 as derivative instruments until January 18, 2011, or 31 days prior to the underlying shares being readily convertible to cash. Prior to that time, any gains and losses on those warrants were recorded in other comprehensive income. On January 18, 2011, Solitario transferred an unrecognized gain on derivative instrument of \$114,000 for the warrants acquired on October 19, 2010 to gain on derivative instrument. In addition, as of December 31, 2011 Solitario has recorded \$74,000 for the fair value of the 3,333,333 warrants received from Ely as a current asset. Solitario recorded an unrealized loss on derivative instrument in the statement of operations of \$179,000 related to the two Ely warrants for the year ended December 31, 2011.

Variable interest entity

On November 12, 2010, we made an initial contribution of \$300,000 for a 10% membership interest in, upon the formation, of MH-LLC which was formed in December 2010 to joint venture the Mt. Hamilton project. The terms of the joint venture are set forth in the Limited Liability Company Operating Agreement of MH-LLC between Solitario

and DHI-US (the “MH Agreement”). MH-LLC owns 100% of the Mt. Hamilton Gold project. Pursuant to the MH Agreement, we may earn up to an 80% interest in MH-LLC, and indirectly, the Mt. Hamilton project, by completing various staged commitments. See a more complete discussion of Ely and MH-LLC below in Note 12, “Ely Gold investment and the Mt. Hamilton Joint Venture.” Pursuant to the terms of the MH Agreement, Solitario has determined that MH-LLC is a VIE in accordance with ASC 810. Solitario has also determined that it is the primary beneficiary of MH-LLC. Accordingly, Solitario consolidates MH-LLC in its consolidated financial statements in accordance with ASC 810. Solitario has determined no separate presentation of assets or liabilities is necessary per ASC 810, as MH-LLC does not have any assets that can only be used to settle specific obligations or any liabilities for which creditors do not have recourse to Solitario.

Fair value

FASB ASC 820, “Fair Value Measurements and Disclosures” (“ASC 820”) establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. For certain of Solitario's financial instruments, including cash and cash equivalents, short-term margin loans and accounts payable, the carrying amounts approximate fair value due to their short-term maturities.

Solitario's marketable equity securities, the Kinross Collar and the Kinross calls are carried at their estimated fair value based on quoted market prices. See Note 7, "Fair value of financial instruments" below.

Marketable equity securities

Solitario's investments in marketable equity securities are classified as available-for-sale and are carried at fair value, which is based upon quoted prices of the securities owned. The cost of marketable equity securities sold is determined by the specific identification method. Changes in market value are recorded in accumulated other comprehensive income within shareholders' equity, unless a decline in market value is considered other than temporary, in which case the decline is recognized as a loss in the consolidated statement of operations. Solitario had marketable equity securities with fair values of \$10,361,000 and \$19,771,000, respectively, and cost of \$988,000 and \$1,087,000, respectively, at December 31, 2011 and 2010. Solitario has accumulated other comprehensive income for unrealized holding gains of \$9,373,000 and \$18,684,000, respectively, net of deferred taxes of \$3,496,000 and \$6,969,000, respectively, at December 31, 2011 and 2010 related to our marketable equity securities. Solitario acquired 3,333,333 shares of Ely common stock during the year ended December 31, 2010 at a cost of \$358,000, discussed in Note 12, "Ely Gold investment and the Mt. Hamilton joint venture" below. Solitario sold 130,000 shares of its Kinross common stock during the year ended December 31, 2011 for gross proceeds of \$2,035,000. Solitario sold 70,000 shares of its Kinross common stock during the year ended December 31, 2010 for gross proceeds of \$1,301,000. Solitario has classified \$4,361,000 and \$5,214,000, respectively, of marketable equity securities as current, as of December 31, 2011 and 2010, which represents Solitario's estimate of what portion of marketable equity securities will be liquidated within one year.

The following table represents changes in marketable equity securities (000's).

	2011	2010	2009
Gross cash proceeds	\$ 2,035	\$ 1,301	\$ 1,852
Cost	<u>98</u>	<u>306</u>	<u>443</u>
Gross gain on sale included in earnings during the period	1,937	995	1,409
Unrealized holding (loss) gain arising during the period included in other comprehensive (loss) income, net of tax of \$2,793, \$534 and \$90	(4,695)	689	152
Reclassification adjustment for net gains included in earnings during the period, net of tax of \$723, \$371 and \$526	(1,214)	(624)	(884)

Foreign exchange

The United States dollar is the functional currency for all of Solitario's foreign subsidiaries. Although Solitario's South American exploration activities have been conducted primarily in Brazil, Bolivia, Peru and Mexico, a significant portion of the payments under the land, leasehold and exploration agreements of Solitario are denominated in United

States dollars. Solitario expects that a significant portion of its required and discretionary expenditures in the foreseeable future will also be denominated in United States dollars. Foreign currency gains and losses are included in the results of operations in the period in which they occur. During 2011, 2010 and 2009, Solitario recorded foreign exchange gain (loss) of \$(43,000), \$(29,000) and \$35,000, respectively. Solitario's cash accounts in foreign subsidiaries not denominated in United States dollars represent the only significant foreign currency denominated assets. Foreign currency denominated cash accounts totaled \$325,000 and \$32,000, respectively, at December 31, 2011 and 2010.

Income taxes

Solitario accounts for income taxes in accordance with ASC 740, "Accounting for Income Taxes." Under ASC 740, income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related to certain income and expenses recognized in different periods for financial and income tax reporting purposes. Deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes are also recognized for operating losses and tax credits that are available to offset future taxable income and income taxes, respectively. A valuation allowance is provided if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Accounting for uncertainty in income taxes

ASC 740 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements. ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. ASC 740 provides that a company's tax position will be considered settled if the taxing authority has completed its examination, the company does not plan to appeal, and it is remote that the taxing authority would reexamine the tax position in the future. These provisions of ASC 740 had no effect on Solitario's financial position or results of operations. See Note 5, "Income taxes" below.

Earnings per share

The calculation of basic and diluted loss per share is based on the weighted average number of common shares outstanding during the years ended December 31, 2011 and 2010. Potentially dilutive shares related to outstanding common stock options of 2,433,000 and 2,584,000 for the years ended December 31, 2011 and 2010, respectively, were excluded from the calculation of diluted loss per share because the effects were anti-dilutive.

Employee stock compensation plans

In April 2010 the FASB issued ASU No. 2010-13, which addresses the classification of a share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. ASC 718 was amended to clarify that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trade shall not be considered to contain a market, performance or service condition. Therefore, such an award is not to be classified as a liability if it otherwise qualifies for equity classification. The amendments in ASU 2010-13 are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010, with early application permitted. Solitario classifies its options as equity options, in accordance with ASU 2010-13 and no longer records a liability for the fair value of its outstanding options beginning January 1, 2011. In accordance with ASU 2010-13, this change has been made on a prospective basis as of January 1, 2011 with a reduction to stock option liability of \$2,775,000, an increase to additional paid-in capital of \$1,240,000 and a reduction in accumulated deficit of \$992,000, net of deferred taxes of \$543,000 as a cumulative effect of a change in accounting principle. The adoption of ASU 2010-13 had the effect of increasing the 2011 net loss and basic and diluted earnings per share by \$524,000 and \$0.02 per share, respectively, by no longer accounting for its options as liabilities. See Note 9, "Employee stock compensation plans" below.

Prior to the adoption of ASU 2010-13, Solitario classified its stock options as liabilities as they are priced in Canadian dollars and Solitario's functional currency is United States dollars. Solitario recorded a liability for the fair value of the

vested portion of outstanding options based upon a Black-Scholes option pricing model. This model requires the input of subjective assumptions, including a risk free interest rate, the contractual term, the exchange rate between the United States dollar and the Canadian dollar, a zero dividend yield, and an expected volatility based upon the historical volatility of Solitario's common stock on the TSX over the period corresponding to the expected life of the options. These estimates involve inherent uncertainties and the application of management judgment. As a result, if other assumptions had been used, Solitario's recorded liability and stock-based compensation expense could have been materially different from that reported.

Solitario's outstanding options on the date of grant have a five-year term, and vest 25% on date of grant and 25% on each anniversary date. Solitario recognizes stock option compensation expense (benefit) for the change in fair value of vested options. Solitario records stock option liability for the vested fair value of each option grant on the measurement date by multiplying the estimated fair value determined using the Black-Scholes model by a vesting percentage, with 25% recognized immediately, and the remaining 75% recognized over three years on a straight line basis.

Segment reporting

Solitario operates in one business segment, minerals exploration. At December 31, 2011, Solitario's Mt. Hamilton project is located in Nevada and all of Solitario's remaining operations are located in Peru, Bolivia, Brazil and Mexico as

further described in Note 2 to these consolidated financial statements. At December 31, 2011 and 2010, Solitario has recorded \$8,821,000 and \$6,066,000, respectively, of mineral property related to its Mt. Hamilton project in Nevada.

Included in the consolidated balance sheet at December 31, 2011 and 2010 are total assets of \$598,000 and \$515,000, respectively, related to Solitario's foreign operations, located in Bolivia, Brazil, Peru and Mexico. Solitario is not aware of any foreign exchange restrictions on its subsidiaries located in foreign countries.

Recent accounting pronouncements

In May 2011 the FASB issued ASU 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Standards in US GAAP and IFRSs," which changes the wording used to describe the requirements in United States Generally Accepted Accounting Principles ("GAAP") for measuring fair value and for disclosing information about fair value measurements in order to improve consistency in the application and description of fair value between GAAP and International Financial Reporting Standards ("IFRS"). ASU 2011-04 clarifies how the concepts of highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of nonfinancial assets and are not relevant when measuring the fair value of financial assets or liabilities. In addition, the guidance expanded the disclosures for the unobservable inputs for Level 3 fair value measurements, requiring quantitative information to be disclosed related to (1) the valuation processes used, (2) the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, and (3) use of a nonfinancial asset in a way that differs from the asset's highest and best use. The revised guidance is effective for interim and annual periods beginning after December 15, 2011 and early application by public entities is prohibited. Solitario does not expect the adoption of this guidance to have an impact on its consolidated financial position and results of operations.

In June 2011 the FASB issued ASU 2011-05, "Presentation of Comprehensive Income," which allows an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both instances, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in ASU 2011-05 do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. However, in December 2011 the FASB issued ASU 2011-12, which deferred the guidance on whether to require entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement where net income is presented and the statement where other comprehensive income is presented for both interim and annual financial statements. ASU 2011-12 reinstated the requirements for the presentation of reclassifications that were in place prior to the issuance of ASU 2011-05 and did not change the effective date for ASU 2011-05. For public entities, the amendments in ASU 2011-05 and ASU 2011-12 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and should be applied retrospectively. The adoption of this guidance concerns disclosure only and will not have an impact on Solitario's consolidated financial position or results of operations.

2. Mineral properties:

Solitario's mineral properties at December 31, 2011 consist of use rights related to exploration stage properties, and the value of such assets is primarily driven by the nature and amount of economic mineral ore believed to be contained, or potentially contained, in such properties. The amounts capitalized as mineral properties include concession and lease or option acquisition costs. Capitalized costs related to a mineral property represent its fair value at the time it was acquired. At December 31, 2011, Solitario has no production (operating) or development stage mineral properties that contain proven or probable reserves, nor any interests in properties that contain proven or probable reserves. Subsequent to December 31, 2011, Solitario did establish that it had proven and probable reserves on its Mt. Hamilton property in Nevada. See Note 15, "Subsequent event, Mt. Hamilton feasibility study." Solitario's exploration stage mineral properties represent interests in properties that Solitario believes have exploration and development potential. Solitario's mineral use rights generally are enforceable regardless of whether proven and probable reserves have been established.

United States

As discussed in Note 1 above, on August 26, 2010, Solitario signed the LOI with Ely to make certain equity investments into Ely and to joint venture Ely's Mt. Hamilton gold project. MH-LLC recorded the Mt. Hamilton mineral properties at their fair value of \$6,066,000 on formation of MH-LLC. The Mt. Hamilton claims are subject to a security interest granted to Augusta Resources Corporation ("Augusta"), from whom Ely had previously acquired its interest in the Mt. Hamilton project that DHI-US contributed to MH-LLC. Upon formation, MH-LLC recorded a liability of \$3,066,000, discounted at 7.5%, which is Solitario's deemed market interest rate, for the secured liability to Augusta. MH-LLC recorded \$3,000,000 for the fair value of the net contribution of the Mt. Hamilton properties by DHI-US as of the formation of MH-LLC. Pursuant to the MH Agreement, Solitario has control of MH-LLC and is consolidating the activities of MH-LLC in accordance with ASC 810. Accordingly, Solitario recorded an addition to mineral properties of \$6,066,000 during 2010. During 2011 Solitario capitalized \$2,520,000 related to the Royalty Buy-down on its Mt. Hamilton project, discussed above. MH-LLC also acquired certain additional leases and property at its Mt. Hamilton project and capitalized an additional \$235,000 to mineral properties related to these initial land acquisition costs during 2011.

Pursuant to the MH Agreement, Solitario was required to fund all exploration expenditures to complete a feasibility study. MH-LLC incurred \$3,700,000 and \$1,214,000, respectively, of exploration expenditures at Mt. Hamilton, which are included in exploration expense for 2011 and 2010. In addition, MH-LLC recorded \$217,000 and \$19,000, respectively, of interest expense related to the long-term debt due to Augusta during the year ended December 31, 2011 and 2010. Solitario recorded \$3,591,000 and \$1,110,000, respectively, as a reduction in the noncontrolling interest related to Ely's 90% interest in the losses of MH-LLC for 2011 and 2010.

Peru

Solitario holds exploration concessions or has filed applications for concessions covering approximately 8,500 hectares in Peru excluding properties held under joint ventures and operated by other parties. Applications to acquire mineral concessions in Peru are subject to formalized administrative review and approval. According to Peruvian law, concessions may be held indefinitely, subject only to payment of annual fees to the government. Each year a payment of \$3.00 per hectare (approximately 2.477 acres per hectare) must be made by the last day of June to keep the claims in good standing. For concessions that are more than six years old, there is a \$6.00 surcharge per hectare (\$9.00 total), if less than \$100 per hectare is invested in exploration and development of the claim. Approximately 2,200 hectares of Solitario's concessions are subject to the \$6.00 per hectare surcharge. Peru also imposes a sliding scale net smelter return royalty (NSR) on all precious and base metal production. This NSR assesses a tax of 1% on all gross proceeds from production up to \$60,000,000, a 2% NSR on proceeds between \$60,000,000 and \$120,000,000 and a 3% NSR on proceeds in excess of \$120,000,000.

(a) Bongará

Solitario acquired the initial Bongará exploration concessions in 1993. Bongará mineral concessions now total 16 concessions covering approximately 13,000 hectares in northern Peru. On August 15, 2006, Solitario signed a Letter Agreement with Votorantim Metais Cajamarquilla, S.A., a wholly-owned subsidiary of Votorantim Metais (both companies referred to as "Votorantim"), on Solitario's 100%-owned Bongará zinc project. On March 24, 2007, Solitario signed a definitive agreement, the Framework Agreement for the Exploration and Potential Development of Mining Properties (the "Framework Agreement"), pursuant to, and replacing, the previously signed Bongará Letter Agreement with Votorantim. Solitario's property interests are held through the ownership of shares in Minera Bongará, a joint operating company that holds a 100% interest in the mineral rights and other project assets. At December 31, 2011, Solitario owns 100% of the shares in this company (Minera Bongará S.A.).

Votorantim can earn up to a 70% shareholder interest in the joint operating company by funding an initial \$1.0 million exploration program (completed), by completing future annual exploration and development expenditures until a production decision is made or the agreement is terminated. The option to earn the 70% interest can be exercised by Votorantim any time after the first year commitment by committing to place the project into production based upon a feasibility study. The agreement calls for Votorantim to have minimum annual exploration and development expenditures of \$1.5 million in each of years two and three, which commitments have been met as of December 31, 2009, and \$2.5 million in all subsequent years, which was met in 2010 and 2011, until a minimum of \$18.0 million has been expended by Votorantim. Votorantim will act as project operator. Votorantim, in its sole discretion, may elect to terminate the option

to earn the 70% interest at any time after the first year commitment. In addition Votorantim is required to make annual delay rental payments of \$100,000 by August 15, 2007 and by making further delay rental payments to Solitario of \$200,000 on all subsequent anniversaries (completed through 2011) until a production decision is made. Once Votorantim has fully funded its \$18.0 million work commitment and committed to place the project into production based upon a feasibility study, it has further agreed to finance Solitario's 30% participating interest through production. Solitario will repay the loan facility through 50% of Solitario's cash flow distributions from the joint operating company. Votorantim is responsible for all joint venture costs as part of the Framework Agreement. Votorantim has conducted annual drilling programs at Bongará for the years 2006-2011, underground tunneling and drilling in 2010-2011, and road building to the project in 2010-2011.

(b) Yanacocha Royalty Property

On January 18, 2005, we signed a letter of intent (the "Letter of Intent") with Newmont Peru, Ltd. ("Newmont Peru"), to amend our net smelter return ("NSR") royalty on a 61,000-hectare property located immediately north of the Newmont Mining-Buenaventura's Minera Yanacocha Mine, the largest gold mine in South America. In addition to amending the NSR royalty schedule, Newmont Peru agreed to a long-term US\$4.0 million work commitment on our royalty property and provides us access to Newmont Peru's future exploration results on an annual basis. In January 2005 the Yanacocha royalty amendment and work commitment Letter of Intent was subsequently replaced by a definitive agreement with the same terms. Newmont continues to conduct annual exploration work on our royalty property, and we see this work continuing for the foreseeable future.

Brazil

(a) Pedra Branca

On April 24, 2007, Solitario signed a definitive agreement, the Shareholders Agreement with Anglo Platinum Limited ("Anglo"), relating to the Pedra Branca Project in Brazil (the "Shareholders Agreement"), for the exploration and development of the Pedra Branca Project. The Shareholders Agreement provides for Solitario and Anglo property interests to be held through the ownership of shares of Pedra Branca Mineracao, Ltd. ("PBM"). Pursuant to the Shareholders Agreement, Anglo earned a 51% interest in PBM on July 21, 2010. Anglo can earn an additional 9% interest in PBM (for a total of 60%) by completing either (i) a bankable feasibility study or (ii) spending an additional \$10.0 million on exploration or development. Anglo can also earn an additional 5% interest in PBM (for a total of 65%) by arranging for 100% financing to put the project into commercial production.

Upon Anglo earning a 51% interest, Solitario made the determination that Anglo had gained control of PBM per the terms of the PBM Shareholders Agreement between Solitario and Anglo. This necessitated the deconsolidation of our interest in PBM and the recording of a gain or loss on deconsolidation in accordance with ASC 810-10-40-5. See Note

11, "Deconsolidation of PBM," below. As part of the Shareholders Agreement with Anglo, we entered into a Services Agreement with Anglo whereby we receive a 5% management fee for managing the project based upon total expenditures. During 2011 Solitario charged PBM management fees of \$62,000, as a credit to exploration expense. During 2010 Solitario charged PBM management fees of \$47,000, of which \$36,000 was received prior to July 21, 2010 and was eliminated in consolidation, net of \$12,000 of noncontrolling interest. In August 2011 Anglo funded \$1,500,000 to PBM for the remainder of the 2011 and the 2012 exploration programs.

(b) Mercurio

On March 9, 2010, Solitario signed a letter agreement with Regent Holdings, Ltd., a wholly-owned subsidiary of Brazilian Gold Corporation ("Regent"), related to Solitario's Mercurio property located in Brazil. In November 2010 Solitario signed a definitive agreement with Regent, whereby Regent agreed to pay to Solitario \$1,000,000 over the next four years, in annual payments in the amounts of \$50,000, \$100,000, \$200,000 and \$650,000, beginning in October 2011, when Regent paid Solitario the first annual payment of \$50,000. Solitario recorded \$42,000 of joint venture and property payments after reduction of the capitalized cost at the Mercurio project of \$8,000. As of December 31, 2011, Solitario has no remaining capitalized cost related to the Mercurio project and any further delay rental payments will be recorded as revenue. Regent is also required to make a minimum exploration expenditure totaling \$900,000 over the same four-year period. Upon receipt of the final payments, Solitario will retain a net smelter royalty of 1.5% on all ounces of gold produced at Mercurio up to two million ounces and Solitario will retain a net smelter royalty of 2.0% on all ounces of

gold produced at Mercurio over two million ounces. Regent may terminate the agreement at any time and is not obligated to make any further payments.

Mexico

(a) Pachuca Real

The Pachuca Real silver-gold property in central Mexico was acquired by staking in late 2005 and early 2006. Part of the property, the approximately 6,200 hectare El Cura claim, is held under an option agreement with a private Mexican party. The option agreement was completed in October 2005 and provides for payments of \$500,000 over four years, of which Solitario made payments totaling \$90,000 as of December 31, 2009. The option agreement was amended in May 2009 and again in October 2011. Under the revised terms, Solitario is required to pay \$15,000 every six months, starting in May 2009, to the underlying owner to keep the option in good standing. By October 2014 Solitario must either exercise the option to acquire 100% interest in the concession by paying the underlying owner \$500,000, or the option will terminate. Claims fees to be paid to the government of Mexico totaling approximately \$82,000 were paid in 2011. Solitario may terminate its option at any time without any further costs.

On April 28, 2010, Solitario signed a definitive venture agreement with Compania De Minas Buenaventura S.A.A. ("Buenaventura") on the Pachuca Real silver-gold project. During 2011 Buenaventura completed a 38-hole drilling program totaling 13,489 meters on the project. Buenaventura terminated the agreement in December 2011.

Discontinued projects

During 2011 we recorded \$10,000 of mineral property write-downs related to our Paria Cruz property in Peru. During 2010 we recorded mineral property write downs of \$55,000 related to our Santiago and Cajatambo projects in Peru and our La Noria and Palmira projects in Mexico. During 2009 we recorded mineral property write-downs of \$51,000 related to our Chonta project in Peru and our Purica project in Mexico.

Exploration Expense

The following items comprised exploration expense:

(in thousands)	2011	2010	2009
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Geologic and field expenses	\$1,922	\$2,420	\$2,339
Administrative	324	399	1,240
Mt. Hamilton exploration	<u>3,700</u>	<u>1,214</u>	=
Total exploration expense	<u>\$5,946</u>	<u>\$4,033</u>	<u>\$3,579</u>

3. Short-term debt:

During the year ended December 31, 2011, Solitario borrowed from RBC Capital Markets, LLC ("RBC"), using Solitario's investment in Kinross held at RBC as collateral for short-term margin loans. On April 16, 2011, Solitario repaid \$1,915,000, the entire balance of its short-term margin loan with RBC, including \$10,000 of accrued interest, with proceeds from the Offering. At December 31, 2011, Solitario has no remaining short-term margin loan with RBC. During the year ended December 31, 2011, the loans carried interest at a margin loan rate of 4.25% per annum, which floats based upon the London Interbank Offered Rate. Solitario borrowed \$900,000, net, from RBC during 2010, in short-term margin loans, using Solitario's investment in Kinross held at RBC as collateral for the short-term margin loans. Solitario maintains its ability to borrow from RBC. The margin loan rate can be modified by RBC at any time. Interest expense related to the RBC short-term margin loans was \$21,000 and \$5,000, respectively for the year ended December 31, 2011 and 2010.

As of December 31, 2011, Solitario has borrowed \$2,000,000 from UBS Bank, USA ("UBS Bank") pursuant to a credit line agreement between Solitario and UBS Bank secured by 540,000 of Solitario's Kinross shares held in Solitario's UBS brokerage account. As of December 31, 2011, Solitario recorded accrued unpaid interest of \$1,000 on the secured line of credit, included in accounts payable. The UBS Bank credit line carries an interest rate which floats, based upon a base

rate of 2.25% plus the one-month London Interbank Offered Rate ("LIBOR"), which was 0.25% as of December 31, 2011. The average base rate was approximately 0.25% for the year ended December 31, 2011. UBS Bank may change the base rate at any time. The UBS Bank credit line provides that Solitario may borrow up to \$2 million and that Solitario maintain a minimum equity value percentage in its UBS brokerage account above 40%, based upon the value of its Kinross shares and any other assets held in Solitario's UBS brokerage account, less the value of its UBS Bank credit line and any other balances owed to UBS Bank. UBS Bank may modify the minimum equity value percentage of the loan at any time. In addition, if the equity value in Solitario's UBS brokerage account falls below the minimum equity value, UBS Bank may sell enough Kinross shares held in Solitario's UBS brokerage account or liquidate any other assets to restore the minimum equity value. At December 31, 2011, the equity value in Solitario's UBS brokerage account was 67%. Solitario recorded interest expense related to the UBS credit line of \$50,000 and \$18,000, respectively, for the year ended December 31, 2011 and 2010.

4. Long-term debt:

In connection with the formation of MH-LLC, the Mt. Hamilton properties contributed by DHI-US to MH-LLC were subject to a security interest granted to Augusta related to Ely's acquisition of the Mt. Hamilton properties. Pursuant to the MH Agreement, as part of its earn-in, Solitario agreed to make payments to provide Ely with the funds necessary for Ely to make the loan payments due to Augusta. As of December 31, 2011, these payments total \$3,250,000. Solitario will pay DHI-US \$750,000 in cash in June 2012, and will make private placement investments totaling \$2,500,000 in Ely common stock, all to provide Ely with the funds necessary for Ely to make the loan payments due to Augusta. The payments due to Augusta are non-interest bearing. Accordingly, upon formation and the contribution of the mineral properties by DHI-US to MH-LLC, MH-LLC recorded discounted fair value of the payments due to Augusta, discounted at 7.5%, which was Solitario's estimated cost of similar credit as of the formation of MH-LLC. The following is the schedule of debt payments due to Augusta as of December 31, 2011 and 2010:

Payment date	December 31, December 31,	
	<u>2011</u>	<u>2010</u>
June 1, 2011	\$ -	\$ 500,000
June 1, 2012	750,000	750,000
June 1, 2013	750,000	750,000
June 1, 2014	750,000	750,000
June 1, 2015	1,000,000	1,000,000
Unamortized discount	<u>(448,000)</u>	<u>(665,000)</u>
Total	2,802,000	3,085,000
Current portion	<u>727,000</u>	<u>481,000</u>
Long-term debt	<u>\$2,075,000</u>	<u>\$2,604,000</u>

During 2011 Solitario recorded \$217,000 for accretion of interest expense related to the Augusta note and paid \$500,000 on the long-term note. During 2010 Solitario recorded \$19,000 for accretion of interest expense related to the Augusta note which increased the outstanding long-term debt balance to \$3,085,000 at December 31, 2010 from the balance of \$3,066,000 upon formation of MH-LLC.

5. Income taxes:

Solitario's income tax expense (benefit) consists of the following as allocated between foreign and United States components:

(in thousands)	2011	2010	2009
Current:			
United States	\$ -	\$ (342)	\$ 385
Foreign	14	50	-
Deferred:			
United States	\$(458)	\$(773)	\$162
Foreign	-	-	-
Operating loss and credit carryovers:			

United States	(191)	(94)	449
Foreign	<u>-</u>	<u>-</u>	<u>-</u>
Income tax expense (benefit)	<u>\$(635)</u>	<u>\$(1,159)</u>	<u>\$996</u>

Consolidated income (loss) before income taxes includes losses from foreign operations of \$2,657,000 and \$2,721,000 in 2011 and 2010, respectively.

During 2011 and 2010, Solitario recognized other comprehensive income related to unrealized (losses) gains on marketable equity securities of (\$7,488,000) and \$1,223,000, respectively. Other comprehensive (loss) income has been charged (\$2,793,000) and \$534,000, respectively, for the income tax (benefit) expense associated with these gains. During 2011 and 2010, Solitario transferred unrealized gain of \$1,937,000 and \$995,000, respectively, from other comprehensive income upon the sale of 130,000 and 70,000 shares, respectively, of Kinross common stock, less income tax of \$723,000 and \$371,000, respectively, associated with these unrealized gains.

The net deferred tax assets/liabilities in the December 31, 2011 and 2010 consolidated balance sheets include the following components:

(in thousands)	2011	2010
Deferred tax assets:		
Loss carryovers	\$9,887	\$ 9,387
Stock option compensation expense	648	976
Royalty	1,492	1,492
Severance	30	30
Other	381	74
Valuation allowance	<u>(9,699)</u>	<u>(9,971)</u>
Total deferred tax assets	<u>2,739</u>	<u>1,988</u>
Deferred tax liabilities:		
Unrealized gain on derivative securities	107	241
MH-LLC investment	1,083	305
Exploration costs	845	845
Unrealized gains on marketable equity securities	3,496	7,012
Other	<u>5</u>	<u>4</u>
Total deferred tax liabilities	<u>5,536</u>	<u>8,407</u>
Net deferred tax liabilities	<u>\$2,797</u>	<u>\$6,419</u>

At December 31, 2011 and 2010, Solitario has classified \$1,627,000 and \$1,945,000, respectively, of its deferred tax liability as current, primarily related to the current portion of its investment in Kinross common stock.

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A reconciliation of expected federal income taxes on income (loss) from operations at statutory rates, with the expense (benefit) for income taxes is as follows:

(in thousands)	2011	2010	2009
Expected income tax expense (benefit)	\$(2,585)	\$(2,210)	\$(411)
Non-deductible foreign expenses	1	1	13
Non-deductible foreign stock compensation expense	16	54	(9)
Foreign tax rate differences	90	98	107
State income tax	(56)	(94)	88
Change in valuation allowance	621	798	1,205
MH-LLC investment	1,221	377	-
Permanent differences and other	<u>57</u>	<u>(183)</u>	3
Income tax expense (benefit)	<u>\$(635)</u>	<u>\$(1,159)</u>	<u>\$ 996</u>

During 2011 and 2010 the valuation allowance was increased primarily as a result of increases in Solitario foreign net operating loss carryforwards, for which it was more likely than not that the deferred tax benefit would not be realized.

At December 31, 2011, Solitario has unused US federal Net Operating Loss ("NOL") carryovers of \$3,022,000 and unused US State NOL carryovers of \$3,929,000 both of which begin expiring in 2030. Solitario has foreign loss carryforwards for which Solitario has provided a full valuation allowance and which expire over various periods from five years to no expiration depending on the foreign jurisdiction.

Solitario adopted the provisions of ASC 740, which prescribe a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 requires that Solitario recognize in its consolidated financial statements, only those tax positions that are "more-likely-than-not" of being sustained as of the adoption date, based on the technical merits of the position. As a result of the implementation of ASC 740, Solitario performed a comprehensive review of its material tax positions in accordance with recognition and measurement standards established by ASC 740. The provisions of ASC 740 had no effect on Solitario's financial position, cash flows or results of operations at December 31, 2011 or December 31, 2010, or for the years then ended as Solitario had no unrecognized tax benefits.

Solitario and its subsidiaries are subject to the following material taxing jurisdictions: United States Federal, State of Colorado, Mexico, Peru and Brazil. The tax years that remain open to examination by the United States Internal Revenue Service are years 2008 through 2011. The tax years that remain open to examination by the State of Colorado are years 2007 through 2011. The tax years that remain open to examination by Mexico are years 2008 through 2011. All tax years remain open to examination in Peru and Brazil. Solitario's policy is to recognize interest and penalties related to uncertain tax benefits in income tax expense. Solitario has no accrued interest or penalties related to uncertain tax positions as of December 31, 2010, December 31, 2011 or for the years then ended.

6. Derivative instruments:

Ely warrants

In connection with the equity investment in Ely on August 30, 2010 (the "First Ely Investment"), Solitario acquired warrants to purchase 833,333 shares of Ely common stock at Cdn\$0.25 per share for a period of two years. The warrants had a four-month hold period from August 30, 2010 whereby any shares received upon exercise of the warrants could not be sold until after December 30, 2010. Solitario recognized a \$147,000 loss on derivative instrument during 2011 and recognized a \$117,000 gain on derivative instrument during 2010 for the change in the value of the warrants received in the First Ely Investment. Solitario has recorded \$36,000 and \$182,000, respectively, as of December 31, 2011 and 2010 for the fair value of the warrants received from the First Ely Investment, based upon a Black-Scholes option pricing model. These warrants are classified as other current assets as of December 31, 2011 and as a long-term other asset as of December 31, 2010 in the consolidated balance sheet.

On October 19, 2010, Solitario made an additional equity investment into Ely, (the "Second Ely Investment") and received warrants to purchase an additional 833,333 shares of Ely common stock at Cdn\$0.25 per share for a period of two years. However because the underlying shares' four-month hold period did not expire until February 2011, as of December 31, 2010 the warrants were not classified as derivative instruments. In accordance with ASC 815, at December 31, 2010 Solitario did not classify the warrants acquired on October 19, 2010 as derivative instruments until January 18, 2011, or 31 days prior to the underlying shares being readily convertible to cash. Prior to that time, any gains and losses on those warrants were recorded in other comprehensive income. At December 31, 2010, Solitario recorded \$184,000 for the fair value of the warrants received in the Second Ely Investment in other current assets and recorded \$114,000 unrealized gain in other comprehensive income. On January 18, 2011, Solitario transferred an unrecognized gain on derivative instrument of \$114,000 for the warrants acquired on October 19, 2010 to gain on derivative instrument. Solitario recorded \$38,000 for the fair value of the 833,333 warrants received from the Second Ely Investment based upon a Black-Scholes option pricing model as other current assets as of December 31, 2011. Solitario recorded a \$146,000 unrealized loss on derivative instrument in the statement of operations for the net loss related to the 833,333 warrants received from the Second Ely Investment for the year ended December 31, 2011.

Kinross Collar

On October 12, 2007, Solitario entered into a Zero-Premium Equity Collar (the "Kinross Collar") pursuant to a Master Agreement for Equity Collars and a Pledge and Security Agreement with UBS AG, London, England, an Affiliate

of UBS Securities LLC (collectively "UBS"). Under the terms of the Kinross Collar, Solitario pledged 900,000 shares of Kinross common shares to be sold (or delivered back to Solitario with any differences settled in cash). On April 12, 2011, the remaining 100,000 shares under the Kinross Collar were released upon the expiration of the tranche of the Kinross Collar on that date. No shares were delivered to UBS under the Kinross Collar and no cash was paid or received upon termination of the final tranche of the Kinross Collar.

Solitario had not designated the Kinross Collar as a hedging instrument as described in ASC 815, "Derivatives and Hedging," and any changes in the fair market value of the Kinross Collar are recognized in the statement of operations in the period of the change. As of December 31, 2011 and December 31, 2010, Solitario recorded no value and \$2,000, respectively, for the fair market value of the Kinross Collar in other current assets. Solitario recorded an unrealized loss of \$2,000 during the year ended December 31, 2011. Solitario recorded an unrealized loss of \$7,000 and gain of \$522,000, respectively, for the year ending December 31, 2010 and 2009 in gain on derivative instrument for the change in the fair market value of the Kinross Collar.

International Lithium Corp.

In May 2011 TNR Gold Corp. ("TNR") completed a spin-out of a new entity, International Lithium Corp. ("ILC"). Solitario owned 1,000,000 shares of TNR at the time of the spin-out and received 250,000 shares of ILC and warrants to acquire 250,000 shares of ILC (the "ILC Warrants") at a price of Cdn\$0.375 per share for a period of two years. During the year ended December 31, 2011, Solitario recorded unrealized gain on derivative instruments of \$2,000 on its ILC warrants.

Covered call options

The business purpose of selling covered calls is to provide additional income on a limited portion of shares of Kinross that Solitario may sell in the near term, which is generally defined as less than one year. In exchange for receiving the additional income from the sale of the covered call option, Solitario has given up the potential upside on the shares covered by the call option sold in excess of the strike price. Solitario has not designated its covered calls as hedging instruments as described in ASC 815 and any changes in the fair market value of its covered calls are recognized in the statement of operations in the period of the change.

Beginning in December 2008, Solitario sold covered calls covering its shares of Kinross common stock. In September 2011 Solitario sold options covering 65,000 shares for proceeds of \$57,000, which were repurchased in October 2011 for \$15,000 and Solitario recorded a gain of \$42,000 in gain/loss on derivative earnings. Solitario sold three covered calls covering 130,000 shares of Kinross common stock during 2009, of which 50,000 of these call options expired unexercised in April 2009, 40,000 were repurchased in July 2009 and 40,000 were repurchased in November 2009. In November 2009 Solitario sold an option for 40,000 shares which expired unexercised in May 2010, and Solitario

recorded a gain of \$42,000 in derivative instruments during 2010 for this call.

Solitario does not use its Kinross Collar or covered call derivative instruments as trading instruments; any cash received or paid related to its derivative instruments is shown as investing activities in the consolidated statement of cash flows.

The following table provides the location and amount of the fair values of Solitario's derivative instruments presented in the consolidated balance sheet as of December 31, 2011 and December 31, 2010:

(in thousands)	Balance Sheet Location	Derivatives	
		December 31, 2011	December 31, 2010
Derivatives not designated as hedging instruments under			
ASC 815			
Ely Investment warrants	Current other assets	\$ 74	\$ -
Ely Investment warrants	Long-term other assets	-	182

Kinross Collar Current other assets - 2

ILC warrants Current other assets 4 -

The following amounts are included in loss (gain) on derivative instruments in the consolidated statement of operations for the years ended December 31, 2011, 2010 and 2009:

(in thousands)	Year ended December 31,					
	<u>2011(1)</u>		<u>2010(1)</u>		<u>2009(1)</u>	
(Loss) gain on derivatives not designated as hedging instruments under ASC 815	Realized	Unrealized	Realized	Unrealized	Realized	Unrealized
Ely warrants	\$ -	\$(179)	\$ -	\$ 117	\$ -	\$ -
ILC warrants	-	2	-	-	-	-
Kinross Collar	(2)	-	-	(7)	-	522
Kinross Calls	42	-	42	-	138	34
Total (gain) loss	<u>\$40</u>	<u>\$(177)</u>	<u>\$ 42</u>	<u>\$110</u>	<u>\$138</u>	<u>\$556</u>

(1) Gains and losses on derivative instruments are realized upon expiration or repurchase. Cash received or paid for the derivative instrument may occur in a different period.

The Kinross common stock held as collateral for the margin loans at UBS Bank and RBC are held in Solitario's brokerage accounts at UBS and RBC, respectively. See Note 3, "Short-term debt" above.

7. Fair value of financial instruments:

For certain of Solitario's financial instruments, including cash and cash equivalents, payables and short-term debt, the carrying amounts approximate fair value due to their short maturities. Solitario's marketable equity securities, including its investment in Kinross common stock, TNR Gold and the First and Second Ely Equity Investments are carried at their estimated fair value primarily based on publicly available quoted market prices. The Kinross Collar and the Ely Warrants are carried at their estimated fair value based on a Black-Scholes option pricing model.

Effective January 1, 2008, Solitario adopted ASC 820, "Fair Value Measurements." ASC 820 establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820 also requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. During 2011 Solitario reclassified the shares underlying the Second Ely Equity Investment from Level 2 to Level 1 upon the expiration of statutory holding requirements. During the year ended December 31, 2011 and 2010, there were no other reclassifications in financial assets or liabilities between Level 1, 2 or 3 categories.

The following is a listing of Solitario's financial assets and liabilities required to be measured at fair value on a recurring basis and where they are classified within the hierarchy as of December 31, 2011:

(in thousands)	<u>Level 1</u>	<u>Level 2</u>	Level 3	<u>Total</u>
Assets				
Marketable equity securities	\$10,361	\$ -	\$ -	\$10,361
Other current assets - Ely warrants	-	74	-	74
Other current assets - ILC warrants	-	4	-	4

The following is a listing of Solitario's financial assets and liabilities required to be measured at fair value on a recurring basis and where they are classified within the hierarchy as of December 31, 2010:

(in thousands)	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Marketable equity securities	\$18,771	\$ -	\$ -	\$18,771
Marketable equity securities – Ely common stock	500	500		1,000
Kinross Collar derivative instrument	-	2	-	2
Other assets - Ely warrants		366		366

Items measured at fair value on a recurring basis:

Marketable equity securities: At December 31, 2011 and 2010, the fair value of Solitario's investment in Kinross, TNR and Ely marketable equity securities is based upon quoted market prices. At December 31, 2010, the Ely shares issued on October 19, 2010 are classified as Level 2, because they were still subject to a hold period, which expired in January 2011.

Ely and ILC warrants: The Ely warrants are not traded on any public exchange. Solitario determines the fair value of the Ely warrants using a Black-Scholes pricing model, using inputs, including share price, volatility of Ely common stock and discount rates that include an assessment of performance risk, that are readily available from public markets and for the hold period discussed above, therefore they are classified as Level 2 inputs as of December 31, 2011 and 2010. The ILC warrants are not traded on a public exchange. Solitario estimates the value of the ILC warrants using a Black-Scholes model and inputs that were readily available from public markets, and has classified these as a Level 2 input as of December 31, 2011.

Kinross Collar: The Kinross Collar between Solitario and UBS was a contractual hedge that was not traded on any public exchange. Solitario determined the fair value of the Kinross Collar using a Black-Scholes model using inputs, including the price of a share of Kinross common stock and the volatility of the Kinross common stock price that are readily available from public markets, and discount rates that include an assessment of performance risk; therefore, they were classified as Level 2 inputs. See Note 6 "Derivative instruments" above.

Items measured at fair value on a nonrecurring basis:

Mt. Hamilton long-term debt: In 2010 the long-term debt associated with the Mt. Hamilton claims was discounted using Solitario's estimate of a market interest rate to obtain similar financing. Solitario did not have access to a readily traded market for similar credit risks and estimated the interest rate based upon what similar interest rates were on publicly held debt instruments issued by mining companies traded on public markets, what Solitario was borrowing money on its short-term margin accounts, and a discussion with an investment banking firm regarding what Solitario may be able to borrow to fund the Mt. Hamilton project. Solitario discounted the \$3,750,000 required payments at an interest rate of 7.5%. Accordingly these inputs are classified as Level 3 inputs.

Mt. Hamilton property valuation: In 2010 Solitario determined the fair value of the mineral claims making up the Mt. Hamilton project upon its investment in MH-LLC based upon: (i) Solitario's evaluation of similar non-producing mining properties, without proven and probable reserves based upon Solitario's experience in these types of transactions; (ii) an analysis of the fair values of the liabilities assumed and the equity interests received upon the formation of MH-LLC; (iii) a review of the funds previously expended and capitalized by Ely in their historical financial statements; and (iv) a review of the stated estimated value of the Mt. Hamilton property transferred to MH-LLC in the transaction documents between DHI-US and Solitario upon the formation of MH-LLC. Accordingly, these inputs are classified as Level 3 inputs.

Deconsolidation of PBM: In 2010 upon Anglo earning a 51% interest in PBM, discussed below in Note 11, "Deconsolidation of PBM," Solitario deconsolidated PBM in accordance with ASC 810-10-40 whereby Solitario performed a valuation using Level 3 inputs of its 49% interest in the assets of PBM on the date of deconsolidation. The fair value analysis examined four valuation techniques and used assumptions of management on future results and included: (i) the present value of future cash flows; (ii) a market valuation analysis of publicly traded entities with exploration exposure to platinum group metals, similar to PBM; (iii) an

analysis of the market value based upon sales and joint ventures of similar exploration properties and projects; and (iv) the recent investment by Anglo to earn an additional 21% interest in PBM.

During the year ended December 31, 2011, Solitario did not change any of the valuation techniques used to measure its financial assets and liabilities at fair value.

8. Commitments and contingencies:

In acquiring its interests in mineral claims and leases, Solitario has entered into lease agreements, which may be canceled at its option without penalty. Solitario is required to make minimum rental and option payments in order to maintain its interests in certain claims and leases. See Note 2, above. Solitario estimates its 2012 property rentals and option payments, excluding the Augusta long term-debt, discussed above and certain earn-in payments to DHI-US discussed below in Note 12, "Ely Gold investment and the Mt. Hamilton joint venture," for properties we own or operate to be approximately \$860,000, assuming that our joint ventures continue in their current status and that we do not appreciably change our property positions on existing properties; approximately \$655,000 of these annual payments are reimbursable to us by our joint venture partners. In addition, we may be required to make further payments in the future if we elect to exercise our options under those agreements or if we enter into new agreements.

Solitario has entered into certain month-to-month office leases for its field offices in Nevada, Peru and Mexico as well as Brazil, prior to the deconsolidation of PBM. The total rent expense for these offices during 2011, 2010 and 2009 was approximately \$55,000, \$89,000 and \$60,000, respectively. In addition, Solitario leases office space under a non-cancelable operating lease for the Wheat Ridge, Colorado office which provides for total minimum rent payments through October of 2012 of \$30,000.

As a result of completion of the Mt. Hamilton feasibility study, Solitario is committed to make certain earn-in payments to DHI-US, excluding payments for the Augusta debt, discussed above in Note 4, "Long-term debt," as contemplated in the MH Agreement: (1) payment of \$300,000 in cash for an advance minimum royalty due to an underlying royalty holder, payment of \$300,000 in cash and delivery of 50,000 shares of Solitario common stock by August 23, 2012; (2) payment of \$300,000 in cash for an advance minimum annual royalty due to an underlying royalty holder; payment of \$500,000 in cash and delivery of 100,000 shares of Solitario common stock by August 23, 2013; (3) payment of \$300,000 in cash for an advance minimum annual royalty due to an underlying royalty holder; payment of \$500,000 in cash; delivery of 100,000 shares of Solitario common stock and buy down of the existing 6% net smelter royalty to a 1% net smelter royalty by paying \$5,000,000 to an underlying royalty holder by November 19, 2014. See Note 12, "Ely Gold investment and the Mt. Hamilton joint venture" below.

9. Employee stock compensation plans:

a.)

The 2006 Plan

On June 27, 2006, Solitario's shareholders approved the 2006 Stock Option Incentive Plan (the "2006 Plan"). Under the terms of the 2006 Plan, the Board of Directors may grant up to 2,800,000 options to Directors, officers and employees with exercise prices equal to the market price of Solitario's common stock at the date of grant.

Solitario accounts for its stock options under the provisions of ASC 718 "Compensation – Stock Compensation." Pursuant to ASC 718, as of January 1, 2011, Solitario classifies its stock options as equity options in accordance with ASU 2010-13. Previously, Solitario had classified its stock options as liabilities as they are priced in Canadian dollars and Solitario's functional currency is United States dollars and Solitario's common stock trades on both the NYSE Amex Equities ("NYSE-Amex") and the Toronto Stock Exchange ("TSX"). Prior to January 1, 2011, Solitario recorded a liability for the fair value of the vested portion of outstanding options based upon a Black-Scholes option pricing model.

During the year ended December 31, 2011, options for 150,600 shares were exercised at prices between Cdn\$1.55 and Cdn\$2.40 per share for cash proceeds of \$247,000. There were no options exercised during 2010 or 2009. There were no options forfeited during 2011 or 2010.

During 2009, Solitario attempted to acquire Metallic Ventures, Inc. (“Metallic Ventures”). On October 13, 2009, concurrent with the signing of an amendment to an agreement with Metallic Ventures, Inc., certain holders of 1,935,000 options agreed to voluntarily cancel the options listed below. None of the cancelled options had any intrinsic value on the date of cancellation. The cancellations of the options were effected to allow Solitario to have enough authorized and unissued shares of its common stock to increase the share consideration offered to Metallic Ventures pursuant to the Amendment. No consideration was paid or received for the cancellation of the options. The following table details the options cancelled on October 13, 2009:

Option Price	Cdn\$2.77	Cdn\$4.38	Cdn\$4.53	Cdn\$5.12
Option expiration date	06/27/2011	02/08/2012	09/07/2012	06/14/2012
Cancelled options	1,388,000	5,000	442,000	100,000

b.) Stock option compensation

Solitario’s outstanding options on the date of grant have a five-year term, and vest 25% on date of grant and 25% on each of the next three anniversary dates. Solitario recognizes stock option compensation expense on the date of grant for 25% of the grant date fair value, and subsequently, based upon a straight line amortization of the unvested grant date fair value of each of its outstanding options. Solitario granted 2,065,000 options on May 5, 2010, with a grant date fair value of \$2,449,000, based upon a Black-Scholes option pricing model resulting in a weighted average fair value of \$1.19 per share. Solitario granted 519,000 options on May 19, 2009, with a grant date fair value of \$339,000, based upon a Black-Scholes pricing model resulting in a weighted average grant date fair value of \$0.65 per share. Solitario recorded \$697,000 of stock option expense during 2011 for the amortization of grant date fair value with a credit to additional paid-in capital.

Prior to January 1, 2011, Solitario recorded a stock option liability for the vested fair value of each option grant on the measurement date by multiplying the estimated fair value determined using the Black-Scholes model by the percent vested of the option on the measurement date. Solitario recognized \$2,513,000 in stock option compensation expense during 2010 and Solitario recognized a \$269,000 stock option compensation benefit during 2009 for the change in the estimated fair value of outstanding options. At December 31, 2010, the fair value of outstanding options granted under the 2006 Plan was determined utilizing the following assumptions and a Canadian dollar to United States dollar exchange rate of 0.99994.

Fair Value at December 31, 2010

Grant Date	5/5/10	5/19/09
Plan	2006 Plan	2006 Plan
Option price (Cdn\$)	\$2.40	\$1.55
Options outstanding	2,065,000	519,000
Expected life	4.4 yrs	3.4 yrs
Expected volatility	62%	66%
Risk free interest rate	1.6%	1.1%

Weighted average fair value	\$2.24	\$2.54
Portion of vesting at measurement date	41.6%	64.6%
Fair value of outstanding vested options	\$1,924,000	\$851,000

c.)

Stock option compensation

The following table summarizes the activity for stock options outstanding under the 2006 Plan as of December 31, 2011, with exercise prices equal to the stock price, as defined, on the date of grant and no restrictions on exercisability after vesting:

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	Shares issuable on outstanding Options	Weighted average exercise Price (Cdn\$)	Weighted average remaining contractual term in years	Aggregate intrinsic value(1)
2006 Plan				
Outstanding, beginning of year	2,584,000	\$2.23		
Granted	-			
Exercised	(150,600)	\$1.60		
Forfeited	=			
Outstanding at December 31, 2011	2,433,400	\$2.27	3.2	\$ -
Exercisable at December 31, 2011	1,271,150	\$2.24	3.1	\$ -

(1)The intrinsic value at December 31, 2011 based upon the quoted market price of Cdn\$1.36 per share for our common stock on the TSX and an exchange ratio of 0.9804 Canadian dollars per United States dollar.

The activity in the 2006 Plan for the years ended December 31, 2011, 2010 and 2009 is as follows:

	Options	2011 Weighted Average Exercise Price(Cdn\$)	Options	2010 Weighted Average Exercise Price(Cdn\$)	Options	2009 Weighted Average Exercise Price(Cdn\$)
2006 Plan						
Outstanding, beginning of year	2,584,000	\$2.23	519,000	\$1.55	2,135,000	\$3.28
Granted	-		2,065,000	\$2.40	519,000	\$1.55
Exercised	(150,600)	\$1.60	-	-	-	
Cancelled	-		-	-	(1,935,000)	\$3.30
Forfeited	-		-	-	(200,000)	\$3.12
Outstanding, end of year	2,433,400	\$2.27	2,584,000	\$2.23	519,000	\$1.55
Exercisable, end of year	1,271,150	\$2.24	775,750	\$2.12	129,750	\$1.55

d.) Stock option compensation – Change in Accounting Principle

On January 1, 2011, Solitario changed its accounting for stock options to equity accounting from liability accounting in accordance with ASU 2010-13. In accordance with ASU 2010-13, this change in accounting principle has been made on a prospective basis as of January 1, 2011 with a reduction to stock option liability of \$2,775,000, an increase to additional paid-in capital of \$1,240,000 and a reduction in accumulated deficit of \$992,000, net of deferred taxes of \$543,000. The newly adopted accounting principle is preferable because it improves consistency in financial reporting by eliminating diversity in accounting practice.

Solitario has estimated that if it had not adopted the change in accounting principle it would have recorded a reduction in stock option compensation expense of \$835,000 and would have reduced net loss by \$524,000 or \$0.02 per share for the year ended December 31, 2011.

10. Stockholders' equity and noncontrolling interest:

During the year ended December 31, 2011, Solitario's only noncontrolling interest related to MH-LLC, for which there were no changes in Solitario's ownership percentage and current activity is presented on the accompanying consolidated statement of equity.

The following provides a reconciliation of the beginning and ending balances noncontrolling interest in PBM and MH-LLC for the year ended December 31, 2010.

(in thousands)	December 31, 2010			
	<u>Shareholders' Equity</u>	Anglo <u>Noncontrolling Interest</u>	Ely <u>Noncontrolling Interest</u>	Total <u>Noncontrolling Interest</u>
Beginning balance	\$14,700	\$414	\$ -	\$ 414
Transfer of deferred noncontrolling interest	1,188	1,594	-	1,594
Noncontrolling interest equity contribution	-	-	3,000	3,000

Deconsolidation of PBM subsidiary	-	(1,844)	-	(1,844)
Comprehensive income:				
Net income (loss)	(4,066)	(164)	(1,110)	(1,274)
Net unrealized gain on marketable equity securities (net of tax of \$163)	<u>64</u>	<u>-</u>	<u>-</u>	<u>-</u>
Comprehensive income (loss)	(4,002)	(164)	<u>(1,110)</u>	<u>(1,274)</u>
Ending balance	\$ <u>11,886</u>	\$ <u>-</u>	\$ <u>1,890</u>	\$ <u>1,890</u>

During the year ended December 31, 2009, Solitario's only noncontrolling interest related to its Pedra Branca project, for which there were no changes in Solitario's ownership percentage.

11. Deconsolidation of PBM:

On July 21, 2010, Anglo made a payment of \$746,000 to PBM required to fund the 2010 work program at the Pedra Branca project, which is held by PBM. Upon making this payment, Anglo earned an additional 21% interest in PBM and now holds a 51% interest in PBM. As part of earning its interest, Solitario transferred \$1,594,000 of previously recorded deferred noncontrolling shareholder payments to Anglo's minority interest and \$1,188,000 to additional paid-in capital for Solitario's disproportionate share of the deferred noncontrolling shareholder payments as of that date.

Solitario reviewed the elements of control over PBM in accordance with ASC 810. Solitario made the determination that as a less than 50% owning noncontrolling shareholder, Solitario did not have aspects of control to overcome the assumption of control by Anglo, the controlling shareholder. Accordingly, it was determined that Anglo had gained control of PBM per the terms of the PBM shareholders agreement between Solitario and Anglo. This necessitated the deconsolidation of our interest in PBM and the recording of a gain on deconsolidation in accordance with ASC 810.

Solitario determined the fair value of PBM on the date of deconsolidation based upon a weighted average of four valuation analyses and used assumptions of management on future results that included: (i) the present value of future cash flows, (ii) a market valuation analysis of publicly traded entities with exploration exposure to platinum group metals, similar to PBM, (iii) an analysis by management of the market value based upon sales and joint ventures of similar exploration properties and projects to Pedra Branca, and (iv) the recent investment by Anglo to earn an additional 21% interest in PBM. Solitario determined the deconsolidation date fair value of its 49% interest in PBM to be \$2,496,000. Solitario recorded a non-cash gain on deconsolidation of PBM of \$724,000 for the year ended December 31, 2010 in other income in the consolidated statement of operations. Solitario recorded the cash decrease of \$1,083,000 from deconsolidation of PBM in its investment activities in the consolidated statement of cash flows for the year ended December 31, 2010.

As of July 21, 2010, Solitario records its equity interest in the gains and losses of PBM against its investment in PBM and has elected not to record its equity method investment in PBM at fair value after July 21, 2010. Solitario recorded a reduction of \$623,000 and \$220,000, respectively, in its equity method investment in PBM for the year ended December 31, 2011 and 2010 for its equity share in the loss of PBM since July 21, 2010. Solitario has determined that its investment and activities of PBM as of and for the years ended December 31, 2011 do not qualify for separate reporting of financial information of a significant equity method subsidiary.

12. Ely Gold investment and the Mt. Hamilton joint venture:

On August 26, 2010, Solitario signed a letter of intent (the "LOI") with Ely to make certain equity investments into Ely and to joint venture Ely's Mt. Hamilton gold project through the formation of MH-LLC. The formation of MH-LLC and certain equity investments, described below, were subject to the approval (the "Approval") of the LOI by Ely shareholders and regulatory approval from the TSX Venture Exchange ("TSXV"), which was received on October 18, 2010. The terms of the joint venture are set forth in the Limited Liability Company Operating Agreement of Mt. Hamilton LLC ("MH-LLC") between us and DHI-US (the "MH Agreement").

a.)

Ely Gold investment

First Tranche equity investment in Ely

As part of the LOI, Solitario agreed to make up to five sequential equity investments in Ely. On August 30, 2010, Solitario acquired 1,666,666 units of Ely at a price of Cdn\$0.15 per unit for consideration of Cdn\$250,000 or \$243,000 (the "First Tranche"). Each unit consisted of one share of Ely common stock and one-half warrant entitling the holder of a full warrant to purchase an additional share of Ely for Cdn\$0.25, with such warrant expiring two years from the subscription date. Any shares received from the units including any shares from the exercise of the warrants were subject to a hold period which expired on December 30, 2010. The warrants further provide that if the price of a share of Ely common stock trades above Cdn\$0.35 on the TSXV for twenty consecutive trading days Ely may give notice to Solitario that the warrants will expire in ten days from the date of the notice, to effectively force Solitario to exercise the warrants. Ely's common stock has not traded above Cdn\$0.35 for twenty consecutive days since Solitario acquired the Ely warrants and at December 31, 2011, Ely common stock was quoted on the TSXV at Cdn\$0.18 per share. Solitario allocated \$178,000 of the purchase price of the units of \$243,000 to the shares of Ely common stock and allocated \$65,000 of the purchase price to the warrants based upon the relative fair values of the warrants and shares in the units on August 30, 2010. The fair value of the shares of Ely common stock on August 30, 2010 was \$317,000 based upon the quoted market value of Ely shares as quoted on the TSXV. The fair value of the Ely warrants was \$117,000 on August 30, 2010 based upon a Black-Scholes option pricing model. Solitario did not discount these fair values for the four-month hold period because the relatively short hold period did not create a material discount to Solitario's value as of the date of purchase of the units.

Ely shares from the First Tranche

Solitario recorded a day-one unrealized gain on the Ely shares of common stock of \$87,000, net of deferred taxes of \$52,000, to other comprehensive income, based upon the quoted fair market value of the Ely shares on August 30, 2010, the date of purchase. During the year ended December 31, 2010, Solitario recognized an additional unrealized gain on marketable equity securities of \$115,000, net of deferred taxes of \$68,000, to a total of \$202,000, net of deferred taxes of \$120,000, in other comprehensive income related to the 1,666,666 shares of Ely acquired on August 30, 2010. During the year ended December 31, 2011, Solitario recognized an unrealized loss on marketable equity securities of \$129,000, net of deferred taxes of \$77,000. Solitario has recorded marketable equity securities of \$294,000 and \$500,000, respectively, as of December 31, 2011 and 2010 for the fair market value of the Ely shares acquired on August 30, 2010.

Ely warrants from the First Tranche

Solitario classified the warrants received on August 30, 2010 as derivative instrument and has recorded a loss on derivative instruments in the statement of operations of \$147,000 for the year ended December 31, 2011 compared to a gain of \$117,000 on derivative instrument for the year ended December 31, 2010 for the fair value of the Ely warrants received on August 30, 2010. The fair value of the warrants was calculated based upon a Black-Scholes option pricing model at each period end date. See Note 6, "Derivative instruments" above.

Second Tranche equity investment in Ely

On October 19, 2010, Solitario acquired an additional 1,666,666 units of Ely at a price of Cdn\$0.15 per unit for consideration of Cdn\$250,000 or \$250,000 (the "Second Tranche"). The warrants included in the units expire on October 18, 2012 and otherwise the units for the First and Second Tranches have the same terms and conditions. Solitario allocated \$180,000 of the purchase price of the Second Tranche units of \$250,000 to the shares of Ely common stock and allocated \$70,000 of the purchase price to the warrants based upon the relative fair values of the warrants and shares in the units on October 19, 2010. The fair value of the Second Tranche shares of Ely common stock on October 19, 2010 was \$508,000 based upon the quoted market value of Ely shares as quoted on the TSXV. The fair value of the Second Tranche Ely warrants was \$197,000 on October 19, 2010 based upon a Black-Scholes option pricing model.

Ely shares from the Second Tranche

Solitario recorded a day-one unrealized gain on the Ely shares of common stock of \$206,000, net of deferred taxes of \$122,000, to other comprehensive income, based upon the quoted fair market value of the Ely shares on October 19, 2010, the date of purchase. During the year ended December 31, 2010, Solitario recognized an additional unrealized loss on marketable equity securities of \$5,000, net of deferred taxes of \$3,000, to a total of \$201,000, net of deferred taxes of \$119,000, in other comprehensive income related to the 1,666,666 shares of Ely acquired on October 19, 2010. During the year ended December 31, 2011, Solitario recognized an unrealized loss on marketable equity securities of \$129,000, net of deferred taxes of \$77,000. Solitario has recorded marketable equity securities of \$294,000 and \$500,000, respectively, as of December 31, 2011 and 2010 for the fair market value of the Ely shares acquired on October 19, 2010.

Ely warrants from the Second Tranche

Because the warrants did not qualify as derivative instruments as of December 31, 2010 because the hold period had more than 31 days remaining at December 31, 2010, Solitario recorded a total of \$72,000, net of deferred taxes of \$43,000 to other comprehensive income for the increase in the fair market value over the allocated cost of the Ely warrants received in the Second Tranche. During 2011 Solitario transferred \$114,000 of unrealized gain in other comprehensive income to gain on derivative instruments in the statement of operations, when the warrants were reclassified as derivative instruments in accordance with ASC 815 in January 2011. Solitario recorded a net loss of \$32,000 on derivative instruments during 2011, including the transfer of \$114,000 of unrealized gain, discussed above, for the change in the fair value of the warrants received on October 19, 2010. The fair value of the warrants was calculated based upon a Black-Scholes option pricing model at each period end date. See Note 6, "Derivative Instruments" above.

Additional tranches of Ely common stock for payment of MH-LLC long-term debt

The MH Agreement provides that Solitario subscribe for three additional tranches of shares of Ely: (i) \$750,000 in shares of Ely common stock at a price equal to the 20-day weighted moving average price on the TSXV (the "WMAP") on or before June 1, 2013 (the "Third Tranche"), the entire amount of which Ely is required to utilize to make the \$750,000 payment due to Augusta for the long-term debt in Note 4 above; (ii) \$750,000 in shares of Ely common stock at a price equal to the WMAP on or before June 1, 2014 (the "Fourth Tranche"), the entire amount of which Ely is required to utilize to make the \$750,000 payment due to Augusta for the long-term debt in Note 4 above; and (iii) \$1,000,000 in shares of Ely common stock at the WMAP on or before June 1, 2015 (the "Fifth Tranche"), the entire amount of which Ely is required to utilize to make the \$1,000,000 payment due to Augusta for the long-term debt in Note 4 above. Although the MH Agreement provides that Solitario would have no obligation to subscribe for any of the shares if Solitario chooses to cease earning an additional interest in MH-LLC, discussed below, prior to the subscription for the shares, as a result of the completion of the Feasibility Study, Solitario intends to develop the Mt. Hamilton project and would lose its entire interest in MH-LLC or be subject to dilution to a 49% interest in MH-LLC if it does not complete all of the payments to DHI-US and the subscription of Ely required in the MH Agreement.

b.) Investment in Mt. Hamilton LLC

Formation of MH-LLC joint venture of the Mt. Hamilton project

On November 12, 2010 Solitario made an initial contribution of \$300,000 for a 10% interest in, upon the formation of, MH-LLC which was formed in December 2010. Pursuant to the MH Agreement, the fair value of the DHI-US contributions was valued at \$3,000,000 for its 90% interest and MH-LLC assumed \$3,066,000 for the fair value of the Augusta debt, discussed above in Note 4, "Long-term debt." Upon formation of MH-LLC whereby Solitario had the right to earn up to an 80% interest in MH-LLC by completing various staged commitments, Solitario determined its interest in MH-LLC was a controlling interest. As a result of its controlling interest in MH-LLC, Solitario has consolidated MH-LLC. See Note 15, "Subsequent event, Mt. Hamilton feasibility study," below.

Pursuant to the MH Agreement, Solitario is required to fund all exploration expenditures to complete a feasibility study. MH-LLC incurred \$3,700,000 and \$1,214,000, respectively, of exploration expenditures at Mt. Hamilton, which are included in exploration expense for 2011 and 2010. In addition, MH-LLC recorded \$217,000 and \$19,000, respectively, of interest expense related to the long-term debt due to Augusta during the year ended December 31, 2011 and 2010. Solitario recorded a \$3,591,000 and \$1,110,000, respectively, for reduction in the noncontrolling interest related to Ely's 90% interest in the losses of MH-LLC for 2011 and 2010.

MH-LLC owns certain mineral claims, which are subject to a security interest held by Augusta. MH-LLC has recorded a note payable for this security interest of \$2,802,000 and \$3,085,000, respectively, as of December 31, 2011 and 2010; see Note 4, "Long-term debt" above.

c.)

Earn-in payments due to DHI-US

Pursuant to the MH Agreement, as of December 31, 2011, and prior to the completion of the Feasibility Study, the MH Agreement provided that Solitario could earn up to an 80% interest in MH-LLC by completing the following staged commitments: (1) In order to earn an additional 41% interest in MH-LLC, to a total of 51%, Solitario must (i) make the Augusta note payment of \$750,000 due on June 1, 2012; and (ii) make cash payments totaling \$300,000 to DHI-US, and deliver 50,000 shares of Solitario common stock to DHI-US by August 23, 2012 (the "Phase I earn-in"). (2) In order to earn an additional 19% interest in MH-LLC, to a total of 70%, Solitario is required to (i) invest \$300,000 into MH-LLC for an advance royalty payment to the underlying royalty holder; and (ii) make cash payments totaling \$500,000 to DHI-

US and deliver 150,000 shares of Solitario common stock to DHI-US by August 23, 2013 (the “Phase II earn-in”). (3) In order to earn an additional 10% interest in MH-LLC, to a total of 80%, Solitario is required to (i) invest \$300,000 into MH-LLC for an advance royalty payment to the underlying royalty holder; (ii) make payments totaling \$500,000 to DHI-US and deliver 100,000 shares of Solitario common stock to DHI-US by August 23, 2014; (iii) buy down the existing 6% net smelter return (“NSR”) royalty to a 3.5% NSR royalty by paying the underlying royalty holder \$3,500,000 by November 19, 2013; and (iv) buy down the existing 3.5% net smelter return (“NSR”) royalty to a 1% NSR royalty by paying the underlying royalty holder \$1,500,000 by November 19, 2014 (the “Phase III earn-in”). The MH Agreement further provides that if Solitario did not make all of the Phase I payments, its entire interest in MH-LLC would be forfeited. After the completion of the Phase I earn-in, Solitario may elect to cease earning an additional interest in MH-LLC at any time prior to the Phase II earn-in or the Phase III earn-in, in which case Solitario’s interest in MH-LLC will be reduced to 49% and DHI-US’s interest will be increased to 51% and Solitario would cease to exercise control of MH-LLC if Phase II or Phase III is not achieved.

Pursuant to the MH Agreement, Solitario upon completion of the Feasibility Study, discussed below in Note 15, “Subsequent event, Mt. Hamilton feasibility study,” has earned an 80% interest in MH-LLC. However, the MH Agreement provides that if Solitario completes a bankable feasibility study and earns an 80% interest in MH-LLC, as of that date, Solitario will no longer be able to opt-out of any future required payments, and will be obligated to make any unpaid payments of cash and stock to DHI-US, any unpaid payments to the underlying royalty holder and any uncompleted investment Tranches due to Ely by the due dates described above. The MH Agreement requires Solitario to fund all expenditures until completion of the Feasibility Study. Pursuant to the MH Agreement, upon completion of the Feasibility Study, all costs will be shared by Solitario and DHI-US pro-rata. However DHI-US has the option of having Solitario contribute its share of costs through commercial completion as a loan, with such loan, plus interest, being repaid to Solitario from 80% of DHI-US’s share of net proceeds from MH-LLC.

d.) Other land payments due by MH-LLC

During 2011, MH-LLC entered into leases to acquire additional mineral properties at Mt. Hamilton for which MH-LLC will be required to make certain additional payments on these properties totaling \$210,000 in 2012, \$235,000 in 2013 and \$310,000 in 2014. These lease payments are at the option of MH-LLC and may be cancelled if MH-LLC chooses not to proceed with the development of the Mt. Hamilton project. In addition, MH-LLC exercised its option for the acquisition of a mineral lease property acquired in the formation of MH-LLC for a payment of \$115,000 in January 2012.

13. Related party transactions:

TNR Gold Corp.

Solitario owns 1,000,000 shares of TNR that are classified as marketable equity securities available-for-sale and are recorded at their fair market value of \$54,000 and \$190,000, respectively, at December 31, 2011 and 2010. Christopher E. Herald, our CEO, was a member of the Board of Directors of TNR until June 3, 2009.

14. Selected Quarterly Financial Data (Unaudited):

(in thousands)	2011			Dec. 31,
	March 31,	June 30,	Sept. 30, (1)(2)(3)	
	(1)(3)	(1)(3)		(1)(3)
Revenue	\$ -	\$ -	\$ 200	\$ 42
Net income (loss)	\$ (161)	\$ (849)	\$ (906)	\$ (1,461)
Earnings (loss) per share:				
Basic and diluted	\$ (0.01)	\$ (0.03)	\$ (0.03)	\$ (0.04)
Weighted shares outstanding:				
Basic and diluted	29,769	33,027	34,163	34,205

(in thousands)	2010			
	March 31,	June 30,	Sept. 30,	Dec. 31,
	(6)(7)(8)	(6)(7)(8)	(4)(5)(6)(7)(8)	(6)(7)(8)
Revenue	\$ -	\$ -	\$ 200	\$ -
Net income (loss)	\$ (905)	\$ (1,292)	\$ 7	\$ (1,876)
Earnings (loss) per share:				
Basic and diluted	\$ (0.03)	\$ (0.04)	\$ 0.00	\$ (0.10)
Weighted shares outstanding:				
Basic and diluted	29,750	29,750	29,750	29,750

Fluctuations for 2011

(1) During 2011 Solitario sold 105,000 shares of Kinross common stock in the first quarter for proceeds of \$1,648,000 and a gain of \$1,568,000; sold 20,000 shares of Kinross stock in the second quarter for proceeds of \$316,000 and a gain of \$302,000 and sold 5,000 shares of Kinross in the fourth quarter for proceeds of \$71,000 and a gain of \$67,000. Solitario did not sell any Kinross shares in the second quarter of 2011, which contributed to the larger loss in the second, third and fourth quarters and the smaller loss in the first quarter.

(2) In the third quarter Solitario received a payment of \$200,000 in joint venture revenue on its Bongará project in Peru, which reduced the loss in the third quarter.

(3) Exploration expense was \$841,000, \$921,000, \$1,724,000 and \$2,460,000, respectively, in the first, second, third and fourth quarters of 2011, which contributed to the fluctuation in the losses in the respective quarters.

Fluctuations for 2010

(4) During the third quarter of 2010, Solitario recorded a gain on the deconsolidation of its PBM subsidiary of \$724,000, which contributed to the net income for the third quarter of 2010.

(5) In the third quarter Solitario received a payment of \$200,000 in joint venture revenue on its Bongará project in Peru, which contributed to the net income for the third quarter of 2010.

(6) Exploration expense was \$775,000, \$953,000, \$584,000 and \$1,721,000, respectively, in the first, second, third and fourth quarters of 2010, which contributed to the fluctuation in the net losses and net income in the respective quarters.

(7) During 2010 Solitario sold 40,000 shares of Kinross common stock in the second quarter for proceeds of \$730,000 and a gain of \$553,000 and sold 30,000 shares of Kinross common stock in the fourth quarter for proceeds of \$571,000 and a gain of \$442,000. Solitario did not sell any Kinross shares in the first and second quarters.

(8) Solitario recognized stock option compensation expense of \$9,000, \$645,000, \$851,000 and \$1,008,000, respectively, in the first, second, third and fourth quarters of 2010, which contributed to the increasing losses from the first, second and fourth quarters and mitigated the gains from deconsolidation joint venture payments and reduced

exploration expenditures in the third quarter, discussed above.

15. Subsequent event. Mt. Hamilton feasibility study:

On February 22, 2012, Solitario announced the completion of the Feasibility Study on its Mt. Hamilton project prepared by SRK. As a result of the completion of the Feasibility Study, Solitario has earned an 80% interest in MH-LLC, owner of the Mt. Hamilton project, and we intend to develop the Mt. Hamilton project, subject to a number of factors including obtaining necessary permits and availability of required capital, none of which is currently in place. As a result of the completion of the Feasibility Study and our intention to develop the Mt. Hamilton project, Solitario became a development stage company (but not a company in the “Development Stage”). The Feasibility Study reported the following proven and probable reserves at Solitario’s Mt. Hamilton project:

Mineral Reserves Statement, Centennial Gold-Silver Deposit,

White Pine County, Nevada

SRK Consulting (Inc.)

Reserve Category	Tons (millions)	Gold Grade		Silver Grade*		Contained	Contained
		oz/ton	g/tonne	oz/ton	g/tonne	Gold (koz)**	Silver (koz)**
Proven	0.923	0.032	1.10	0.155	5.31	29,300	142.7
Probable	21.604	0.021	0.72	0.134	4.59	457,800	2,884.3
Proven + Probable	22.527	0.022	0.75	0.136	4.66	487,100	3,028.2

*Reported silver grade is cyanide soluble. ** Some numbers may not add due to rounding

The MH Agreement provides that if Solitario completes a bankable feasibility study and earns an 80% interest in MH-LLC, as of that date, Solitario will no longer be able to opt-out of any future required payments, and will be obligated to make any unpaid payments of cash and stock to DHI-US, any unpaid payments to the underlying royalty holder and, pursuant to the LOI, Solitario will be obligated to make any uncompleted investment Tranches due to Ely by the due dates described above. Upon completion of the Feasibility Study, the MH Agreement provides that all costs for development at Mt. Hamilton will be shared by Solitario and DHI-US pro-rata. However DHI-US has the option of having Solitario contribute its share of costs through commercial completion as a loan, with such loan, plus interest, being repaid to Solitario from 80% of DHI-US’s share of net proceeds from MH-LLC.

Item 15. Exhibits, Financial Statement Schedules

Exhibit No.	<u>Exhibit Description</u>
3.1	Amended and Restated Articles of Incorporation of Solitario Exploration & Royalty Corp., as Amended (incorporated by reference to Exhibit 3.1 to Solitario's Form 10-Q filed on August 10, 2010)
3.2	Amended and Restated By-laws of Solitario Exploration & Royalty Corp. (incorporated by reference to Exhibit 3.2 to Solitario's Form 10-Q filed on August 7, 2008)
4.1	Form of Common Stock Certificate of Solitario Exploration & Royalty Corp. (incorporated by reference to Exhibit 4.1 to Solitario's Form 10-Q filed on August 7, 2008)
10.1	Purchase Agreement for a royalty buy-down by and among MH-LLC, Solitario Exploration & Royalty Corp. and Centennial, dated May 17, 2011 (incorporated by reference to Exhibit 99.1 to Solitario's Form 8-K filed on May 18, 2011)
10.2	Letter agreement between Solitario Exploration & Royalty Corp. and DHI-US with respect to the funding of the Purchase Price and related amendments to the MH-LLC Operating Agreement dated May 17, 2011 (incorporated by reference to Exhibit 99.2 to Solitario's Form 8-K filed on May 18, 2011)
10.3	Letter of intent between Solitario Exploration & Royalty Corp. and Ely Gold & Minerals Inc. regarding private placement and the Mt. Hamilton joint venture (incorporated by reference to Exhibit 99.1 to Solitario's 8-K filed on September 1, 2010)
10.4	Limited Liability Company Operating Agreement of Mt. Hamilton LLC between Solitario Exploration & Royalty Corp. and DHI Minerals (U.S.) Ltd. dated December 22, 2010 (incorporated by reference to Exhibit 99.2 to Solitario's 8-K filed on December 28, 2010)
10.5	Limited Liability Company Contribution Agreement among Solitario Exploration & Royalty Corp., DHI Minerals (U.S.) Ltd. and Mt. Hamilton LLC dated December 22, 2010 (incorporated by reference to Exhibit 99.3 to Solitario's 8-K filed on December 28, 2010)
10.6	Solitario Resources Corporation 2006 Stock Option Incentive Plan (As Amended), an amendment of the Solitario Resources Corporation 2006 Stock Option Incentive

Plan (incorporated by reference to Exhibit A to Solitario's Proxy Statement Pursuant to Section 14(a) filed on April 30, 2007)

10.7 Alliance Agreement, dated January 18, 2005, between Solitario Resources Corporation and Newmont Overseas Exploration Limited (incorporated by reference to Exhibit 99.1 to Solitario's Form 8-K filed on January 20, 2005)

10.8 Stock Purchase Agreement, dated January 18, 2005, between Solitario Resources Corporation and Newmont Mining Corporation of Canada Limited (incorporated by reference to Exhibit 99.2 to Solitario's Form 8-K filed on January 20, 2005)

10.9 Amended and Restated Royalty Grant, dated January 18, 2005, between Solitario Resources Corporation and Minera Los Tapados S.A. (incorporated by reference to Exhibit 99.3 to Solitario's Form 8-K filed on January 20, 2005)

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10.10 Change in Control Severance Benefits Agreement between Solitario Resources Corporation and Christopher E. Herald, dated as of March 14, 2007 (incorporated by reference to Exhibit 99.1 to Solitario's Form 8-K filed on March 14, 2007)

10.11 Change in Control Severance Benefits Agreement between Solitario Resources Corporation and James R. Maronick, dated as of March 14, 2007 (incorporated by reference to Exhibit 99.2 to Solitario's Form 8-K filed on March 14, 2007)

10.12 Change in Control Severance Benefits Agreement between Solitario Resources Corporation and Walter W. Hunt, dated as of March 14, 2007 (incorporated by reference to Exhibit 99.3 to Solitario's Form 8-K filed on March 14, 2007)

10.13 Framework Agreement for the Exploration and Development of Potential Mining Properties, related to Solitario's 100% owned Bongará project in Peru between Minera Bongará S.A., Minera Solitario Peru S.A.C, Solitario Resources Corporation, and Votorantim Metais – Cajamarquilla S.A dated March 24, 2007 (incorporated by reference to Exhibit 10.2 to Solitario's Form 8-K filed on October 4, 2007)

10.14 Shareholders Agreement relating to the Pedra Branca Project in Brazil, between Anglo Platinum Brasil, S.A. and Altoro Mineracao, LTDA and Pedra Branca do Brasil Mineração S.A. and Rustenburg Platinum Mines Limited and Solitario Resources Corporation dated April 24, 2007 (incorporated by reference to Exhibit 10.1 to Solitario's Form 8-K filed on October 4, 2007)

10.15 Master Agreement for Equity Collars between Solitario Resources Corporation and UBS AG, London, England, an affiliate of UBS Securities, LLC, Stamford, CT, dated October 5, 2007, providing the terms and conditions for entering a Zero-Premium Equity Collar on 900,000 shares of Kinross common stock pledged by Solitario (incorporated by reference to Exhibit 10.1 to Solitario's Form 10-Q filed on November 8, 2007)

10.16 Pledge and Security Agreement between Solitario Resources Corporation and UBS AG, London, England, an affiliate of UBS Securities, LLC, Stamford, CT, dated October 5, 2007 providing the terms and conditions to allow for the pledge by Solitario of 900,000 shares of Kinross common stock pursuant to a Master Agreement for Equity Collars dated of the same day (incorporated by reference to Exhibit 10.2 to Solitario's Form 10-Q filed on November 8, 2007)

10.17 Single Pay Collar Confirmations between Solitario Resources Corporation and UBS AG, London, England, an affiliate of UBS Securities, LLC, Stamford, CT dated October 12, 2007 for the pledge of 900,000 shares of Kinross common stock pursuant to the Master Agreement for Equity Collars and the Pledge and Security Agreement, filed above in item 10.1 and 10.2, respectively, setting the trade and termination date, upper and lower threshold prices, number of shares and other terms and conditions of three equity collars entered into on the same date (incorporated by reference to Exhibit 10.3 to Solitario's Form 10-Q filed on November 8, 2007)

14.1 Code of Ethics for the Chief Executive Officer and Senior Financial Officer (incorporated by reference to Exhibit 99.1 to Solitario's Form 8-K filed on July 18, 2006)

21.1**Subsidiaries of Solitario Exploration & Royalty Corp.

23.1* Consent of Ehrhardt Keefe Steiner & Hottman PC

23.2* Consent of SRK Consulting (U.S.) Inc.

24.1**Power of Attorney

31.1* Certification of Chief Executive Officer pursuant to SEC Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2* Certification of Chief Financial Officer pursuant to SEC Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1* Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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The following financial statements, formatted in XBRL: (i) Consolidated Balance Sheets as of December 31, 2011 and 2010; (ii) Consolidated Statements of Operations for the years ended December 31, 2011, 2010 and 2009; (iii) Consolidated Statements of Shareholders' Equity and Comprehensive Loss for the years ended December 31, 2011, 2010 and 2009; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009; and (v) Notes to the Consolidated Financial Statements, tagged as blocks of text. In 101**accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by the specific reference in such filing.

* Filed herewith.

** Exhibit was previously filed with the original Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Solitario Exploration & Royalty Corp. has duly caused this Annual Report on Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized.

SOLITARIO EXPLORATION
& ROYALTY CORP.

By: /s/ James R. Maronick
Chief Financial Officer

Date: September 10, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K/A has been signed below by the following persons on behalf of Solitario Exploration & Royalty Corp. and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Christopher E. Herald Christopher E. Herald, Chief Executive Officer	Principal Executive Officer and Director	September 10, 2012
/s/ James R. Maronick James R. Maronick, Chief Financial Officer	Principal Financial and Accounting Officer	September 10, 2012
/s/ Mark E. Jones, III** Mark E. Jones, III	Director	
/s/ Brian Labadie**	Director	

Brian Labadie

/s/ Leonard Harris ** Director
Leonard Harris

/s/ John Hainey** Director
John Hainey

**By James R. Maronick, attorney-in-fact pursuant to power of attorney granted in the Original Filing.